BUILDING CONNECTIONS

BC Transmission CORPORATION

2007 ANNUAL REPORT
April 1, 2006 to
March 31, 2007

BRITISH COLUMBIA
The Best Place on Earth

2007-05498/

Contents

1 Highlights

2 Message from the Chair to the Minister

4 Organizational Overview

11 Alignment with Government Strategic Plan, Energy Plan and Shareholder's Letter of Expectation

12 Report on Performance

13 Goal One: Reliability, costs and service

21 Goal Two: Market efficiency

24 Goal Three: Environment and safety

29 Goal Four: Relationships

32 Goal Five: Organization and people

35 Goal Six: Financial Return

37 Governance

40 Financial Report

87 Glossary of Terms

Highlights

British Columbia Transmission Corporation (BCTC) undertook a number of key initiatives and achieved several important milestones in Fiscal 2007:

- Received the Canadian Electricity Association's gold award, recognizing BCTC's excellent safety record for the third consecutive year.
- Received British Columbia Utilities Commission (the Commission) approval for the Vancouver Island Transmission Reinforcement Project, which is designed to ensure that the residents of Vancouver Island continue to receive reliable electric power.
- Placed into service four new substations, meeting the growing demand for electricity service in Fort St. John, Maple Ridge, Whistler and Langley.
- Initiated BCTC's Aboriginal Business Development Program to increase employment and business opportunities for Aboriginal peoples.
- Initiated a plan to implement the Provincial Government's new Energy Plan, *The BC Energy Plan: A Vision for Clean Energy Leadership*, released on February 27, 2007. In the Plan, government confirmed the importance of a publicly owned, independent transmission company and set additional priorities for BCTC that will help achieve the Energy Plan goals of environmental leadership, energy conservation and efficiency, energy security and investment in innovation.
- Continued to develop a "Future Grid." Through the use of advanced, innovative, technology, the maximum operating capacity of existing transmission assets will be optimized, and the life of the assets extended.
- Signed a new agreement with the Bonneville Power Administration (BPA), the primary transmission provider in the Pacific Northwest, to enhance interconnection operations between BCTC and BPA and to help facilitate coordinated, long-term system planning in the Pacific Northwest.
- Actively engaged First Nations, stakeholders, communities and the general public in discussions about upcoming transmission initiatives and activities. Almost 80 stakeholder and First Nations meetings took place during the year. In addition, BCTC launched an awareness campaign to build understanding of the important role that transmission plays in the BC economy.

Financial Highlights

($ in millions)	Fiscal 2007	Fiscal 2006
Income Statement		
Revenues	$ 189.8	$ 205.3
Operations, maintenance and administration expenses	168.2	157.2
Net income	2.7	13.5
Capital Expenditures		
Assets owned by BCTC	$ 50.4	$ 21.4
Transmission assets owned by BC Hydro	183.8	123.7
Balance Sheet		
Total assets	$ 145.6	$ 137.3
Debt	37.0	37.2
Shareholder's Equity	39.0	37.8

Message from the Chair

During 2006-2007 British Columbia Transmission Corporation continued to expand and reinforce BC Hydro's electricity transmission system to better serve our customers. Our efforts are clearly focused on ensuring that our grid remains among the most reliable, responsive, and efficient systems in North America. To accomplish this we are finding innovative, new ways to better plan and operate our business.

BCTC achieved a number of specific, important milestones in Fiscal 2007. The construction of new transmission system control centres in the Fraser Valley and Okanagan are moving ahead toward commissioning in fall 2008. This major project is on-budget and on schedule. The world-class technology found in these control centres will allow BCTC to respond to the increasing complexity and demands on BC's transmission system and provide even better service to our customers.

BCTC is moving forward with construction of new transmission infrastructure to meet the growing needs of Vancouver Island and the Southern Gulf Islands. In addition, BCTC began consulting with over 30 communities and First Nations as we explore various alternatives to expand the transmission system from the interior of the province to meet the growing demand for electric power in the Lower Mainland.

BCTC is addressing demand growth in other parts of BC with new substations in Langley, Fort St. John, Maple Ridge, and Whistler. These new facilities were developed using an innovative, turn-key approach that saved time and money and minimized exposure to rising construction costs.

We will face an ongoing challenge to manage the impact of cost pressures on transmission capital projects arising from BC's boom in construction and the dramatic rise in transmission construction as jurisdictions across North America begin to expand their systems after years of little activity.

BCTC made significant progress in further improving its service to our customers. BC Hydro's 2006 Call for Tenders produced 38 new contracts with independent power producers, a critical step toward achieving provincial electricity self-sufficiency. In a very tight time frame, BCTC delivered more than 70 interconnection studies, providing the information independent power developers needed to participate successfully in the call.

BCTC's new open-access transmission tariff (OATT) went live in Fiscal 2006. Since then, a negotiated agreement with BCTC's customers resolved issues on the appropriate use of the system by BC Hydro under its Network Integration Transmission Service. BCTC also developed a comprehensive rate-design report that assesses a number of up-grades to our tariff, and highlights the costs and benefits of more fundamental reforms. We are now discussing the report with our customers, and an application to the BC Utilities Commission for the resulting tariff changes is expected later in Fiscal 2008.

Regional integration continues to be fundamental to ensuring a reliable and secure grid. In Fiscal 2007, BCTC worked with utilities in Alberta and the Pacific Northwest to improve the way that emergency reserves are shared to the mutual benefit of all jurisdictions. BCTC also explored with Alberta opportunities to reinforce the transmission interties between the two provinces, to maximize trade benefits and to capture the reliability that comes from having robust transmission links.

Near the end of the fiscal year, Government released *The BC Energy Plan: A Vision for Clean Energy Leadership*. As both a Crown Corporation and the planner of the transmission system, BCTC will play a key role in the achieving the objectives of the new Energy Plan. The new Plan confirms and strengthens BCTC's important job.

To support the Energy Plan, we will maintain and reinforce the transmission grid to support the achievement of the Plan's self-sufficiency objective, integrate clean and renewable energy, and reduce the electricity losses that occur as a result of moving power along transmission lines. We will focus on identifying technology and innovations that will support these important objectives. For example, we are preparing to integrate the growing number of new clean generators, including biomass projects using mountain pine beetle-killed wood.

In our fourth year of operations and second year completely independent of BC Hydro, we earned a net income of $2.7 million in Fiscal 2007 compared with plan of $3.9 million and Fiscal 2006 actual net income of $13.5 million. The reduction in net income arose from reduced transmission rates for customers and modestly higher operating costs that reflect the growth in business activity.

BCTC's most important priority is the safety of the public, our employees, and our contractors. Again this year, BCTC achieved its safety target of no lost time accidents for our employees and only six lost time accidents for our contractors. Our strong safety record was among the very best in the industry and resulted in BCTC's winning of the Canadian Electric Association Gold Award.

Our Fiscal 2007 operational performance was strong in most areas, but some areas for improvement emerged, as well. BCTC continues to work hard on, and set ambitious targets for, improving its environmental performance. Our environmental results in Fiscal 2007 fell short of target, and improving on this result will be a management priority in the coming year. British Columbia faced an unusual number of severe storms over the past winter. These resulted in a larger than expected number of weather-related outages this year which prevented us from achieving our reliability target. We will evaluate a range of technical and operational initiatives designed to reduce the effects of future stormy winters.

Our employees and stakeholders continue to have a strong respect for the company. Employee engagement rose sharply in Fiscal 2007, well surpassing both the target and past years' performance. And despite the public challenges we faced in advancing our transmission projects, our stakeholders continue to view the company positively, as reflected in our survey results.

I would like to acknowledge the efforts of our employees and the co-operation of our unions during the year. Through their efforts, BCTC managed a severe winter of storms, advanced several key capital projects, handled a surge in demand for interconnections, introduced a new tariff, and worked with Government and our stakeholders on a number of new projects. While achieving all of this and more, employees maintained high morale and sustained strong public support.

This Fiscal 2007 British Columbia Transmission Corporation Annual Report was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The Board is accountable for the content of this report, including the selection of performance measures and how the results have been reported. Information presented reflects the actual performance of BCTC for the 12 months ending March 31, 2007. All significant risks, as of May 23, 2007 have been considered in preparing this report.

The information presented is prepared in accordance with BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our Service Plan. The measures presented are consistent with BCTC's mission, goals, and objectives, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring that internal controls are in place so that performance information is measured accurately and in a timely fashion.

This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

R.T.F. (Bob) Reid

Chair of the Board
British Columbia Transmission Corporation

Organizational Overview

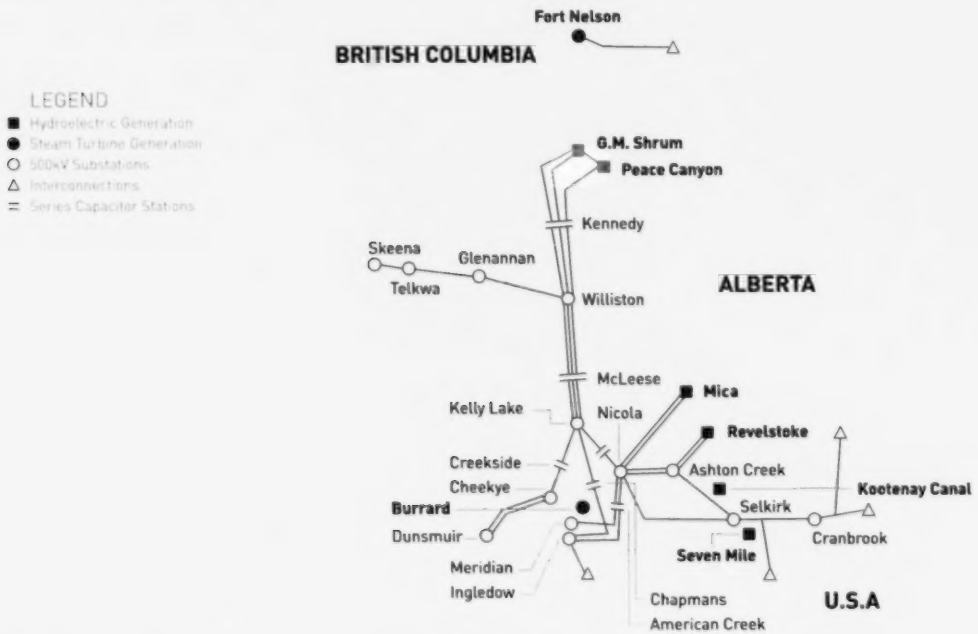
B.C.'s transmission system

The heritage transmission system owned by BC Hydro is the second largest in the Pacific Northwest and is made up of an extensive network that includes:

- 18,200 km of high-voltage power lines, underground and submarine cables that range from 60 kilovolts (kV) to 500 kV;
- 20,500 steel towers;
- 75,000 wood poles;
- 290 substations; and
- 90 microwave stations and microwave repeater sites.

BC Hydro's transmission system, managed by BCTC, receives power from approximately 60 generating facilities across the province and through interties within the Pacific Northwest and Alberta. This electricity is then transmitted to 386 delivery points throughout BC.

Along with lines owned by BC Hydro, the Province's transmission system also includes lines owned by Fortis BC and other power generators. It was built between 1940 and 1980, with the last major upgrade more than 30 years ago.



British Columbia Transmission Corporation (BCTC) manages the Province's transmission system by operating, maintaining and planning for the growth of BC Hydro's transmission assets and managing interconnections with Independent Power Producers (IPPs) in British Columbia, Alberta, and the United States. BCTC provides safe, reliable and cost-effective transmission service for a variety of system users through our open-access tariff. Our corporate head office is located in Vancouver, with the System Control Centre and Telecommunications Control Centre in Burnaby, and four Area Control Centres in Vancouver, Duncan, Prince George and Vernon.

To meet the electricity needs of British Columbians today and in the future, BCTC has established a 10-year, $3.2 billion capital plan. This investment will ensure that the transmission system is ready to meet the needs of a growing economy and expanding electricity industry.

Linking British Columbians to opportunity

BC's integrated transmission network traverses much of the province and interconnects with neighbouring transmission systems in Alberta and the northwest United States. Two 138 kV lines and one 500 kV line connect BC to Alberta, and two 500 kV lines and two 230 kV lines connect our system to the US.

These important links strengthen the reliability of our transmission system and ensure low-cost electricity for British Columbians through the sharing of emergency back-up power and through access to markets for both buying and selling electricity.

British Columbia's new Energy Plan has set a goal of electricity self-sufficiency by 2016, with at least 90 per cent to come from clean or renewable generation. BCTC has an important role in helping to meet that target by ensuring that reliable transmission infrastructure is in place. New transmission investments will be anticipated sufficiently in advance to ensure that the system is ready to move electricity from these new clean sources.

BCTC will continue to work with other jurisdictions to maximize the benefit of an interconnected grid, remain consistent with evolving North American reliability standards, and ensure that British Columbia's infrastructure remains capable of meeting customer needs today and in the future.

Mandate and enabling legislation

In 2003, the Province of British Columbia established BCTC under the *BC Business Corporations Act* (then called the *Company Act*) as a Crown Corporation responsible for operating, maintaining, planning and expanding BC Hydro's high-voltage electric transmission grid. BC Hydro continues to own the transmission assets. BCTC owns the control centre assets, which are required for operating and controlling the transmission system.

BCTC's mandate is to provide open and fair access to BC's electric transmission system, facilitate private generation investment in BC and maintain access to the Western North American wholesale electricity market. Our independence facilitates a more robust electricity industry. BCTC is a direct outcome of the 2002 provincial energy plan, *Energy for our Future: A Plan for BC*, and is legislated under the *Transmission Corporation Act*. A series of five Key Agreements with BC Hydro, designated by Order-in-Council in November 2003, ensure coordinated long-term planning processes that meet the requirement to deliver reliable, low-cost power in the province. An overall Master Agreement sets out our roles and responsibilities. In addition, a Transmission Operating Agreement, Asset Management and Maintenance Agreement, Asset Lease, Licence and Transfer Agreement, and Support Services Agreement are also in place.

BCTC's shareholder is the Province of British Columbia, and BCTC reports to the Minister of Energy, Mines and Petroleum Resources. A ten-member Board of Directors, appointed by the Shareholder, oversees the corporation.

A Shareholder's Letter of Expectations from the Minister to BCTC's Board Chair sets out the corporate mandate, high-level performance expectations, strategic priorities and the respective roles and responsibilities of the Shareholder and BCTC. The Shareholder's Letter is available at: http://www.bctc.com/about_bctc/reports_performance, and forms the basis for the development of BCTC's service plan.

Throughout the year, the Board Chair, the President and CEO and the Board of Directors inform the Minister on key developments affecting BCTC.

BCTC is regulated by the Commission, which holds comprehensive hearing processes that provide open forums to engage the public and stakeholders in its decision-making.

BCTC's primary roles, responsibilities and services include:

- Exclusive authority for electric transmission reliability of BC Hydro's transmission assets;
- Operation of the transmission system, including real-time operation of transmission, generation, distribution and telecommunications systems, and transaction scheduling;
- Provision of services under the Open Access Transmission Tariff (OATT), including all aspects of the regulatory process, tariff administration and customer relations. The OATT defines the rates, and terms and conditions of transmission service and interconnection to the transmission system;
- Planning of the transmission system in coordination with BC generation and distribution entities and neighbouring control areas and transmission organizations;
- Managing and maintaining assets, including transmission lines, substations and telecommunications systems owned by BC Hydro, as well as BCTC's control centres. The maintenance plan involves the execution of over 25,000 work orders per year, with an annual expenditure of approximately $80 million;
- Sustaining, replacing and expanding the transmission assets and BCTC's control centre assets, to ensure reliable service for domestic customers and for electricity trade. As the transmission asset owner, BC Hydro finances transmission capital expenditures as identified by BCTC, following Commission approval. As owner of the control centre assets, BCTC funds capital expenditures on these assets, subject to Commission approval; and
- Assisting in maintaining low electricity rates in British Columbia, including the cost-effective management of all BCTC functions.

Our mission

We are BC's independent electric transmission company, ensuring fair and open access to the grid and creating value and new opportunities for our customers and stakeholders by providing safe, reliable and cost-effective transmission services.

Our vision

As an independent electric transmission company, we are globally recognized for our innovative and sustainable approach to serving our customers.

Our values

BCTC's five values of honesty and integrity, innovation, openness and responsiveness, accountability, and sustainability guide our corporate and individual behaviours. These values are core to our success and reputation, and are reflected in everything we do:

Through **Honesty and Integrity**, we say what we mean and do what we say. We treat all parties fairly and with respect.

Through **Innovation**, we continuously seek ways to improve our business operations and the way we serve British Columbians and all of our stakeholders. We value creativity and balance in our approach. By setting our performance objectives high, we are able to fully understand and effectively manage risk.

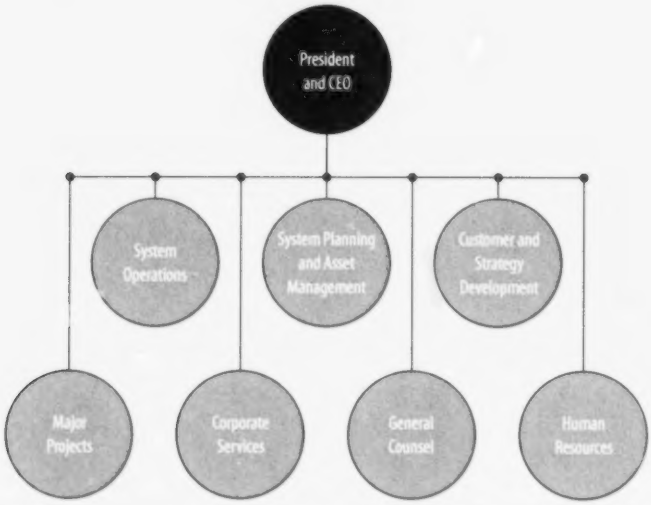
Through **Openness and Responsiveness**, we share information proactively and seek and respond to feedback. We also invest in understanding the needs of our customers, First Nations and stakeholders.

Through **Accountability**, we take responsibility for our actions, encourage diverse opinions and support decisions once made. We set clear objectives and accept responsibility for their achievement. We also pursue opportunities to increase our individual knowledge of our business.

Through **Sustainability**, we manage the business with both today and tomorrow in mind. We employ the best people, respecting their diverse skills, experience and background, and invest in their future with us. We respect the natural environment. We work safely, and encourage balance among home life, work and community involvement.

Our values are an important part of our business, and it is important for employees to demonstrate the values every day. In fact, demonstration of the values is a key aspect of the annual performance review process, as well the achievement of objectives.

Overview of the internal organizational structure



BCTC's activities and services are delivered by 360 employees across seven business departments:

System Operations comprises 148 employees that manage the safe, efficient and reliable operations of the transmission system in real-time. BCTC operates the System Control Centre and the Telecommunications Control Centre in Burnaby, and four Area Control Centres in Vancouver, Duncan, Prince George and Vernon. This group is also responsible for the System Control Modernization Project (SCMP), in which these centres will be consolidated into two locations, Langley and Vernon, commencing in Fiscal 2008.

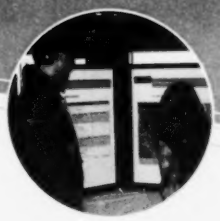
System Planning and Asset Management comprises 95 employees. The team is responsible for planning and sustaining the transmission assets and managing critical transmission projects in a safe, effective and efficient manner. System Planning and Performance Assessment, Asset Program Definition, Asset Program Management, Research and Development, Business Planning, Corporate Capital Planning and Safety and Environment are part of this division.

Customer and Strategy Development comprises 32 employees responsible for developing proactive ways to enhance electricity industry activity on BC's grid, including scheduling service and conducting study requests for our customers. This group holds overall responsibility for customer and stakeholder relationships. The department consists of Public Affairs, Strategy and Policy, Market Operations and Business Development.

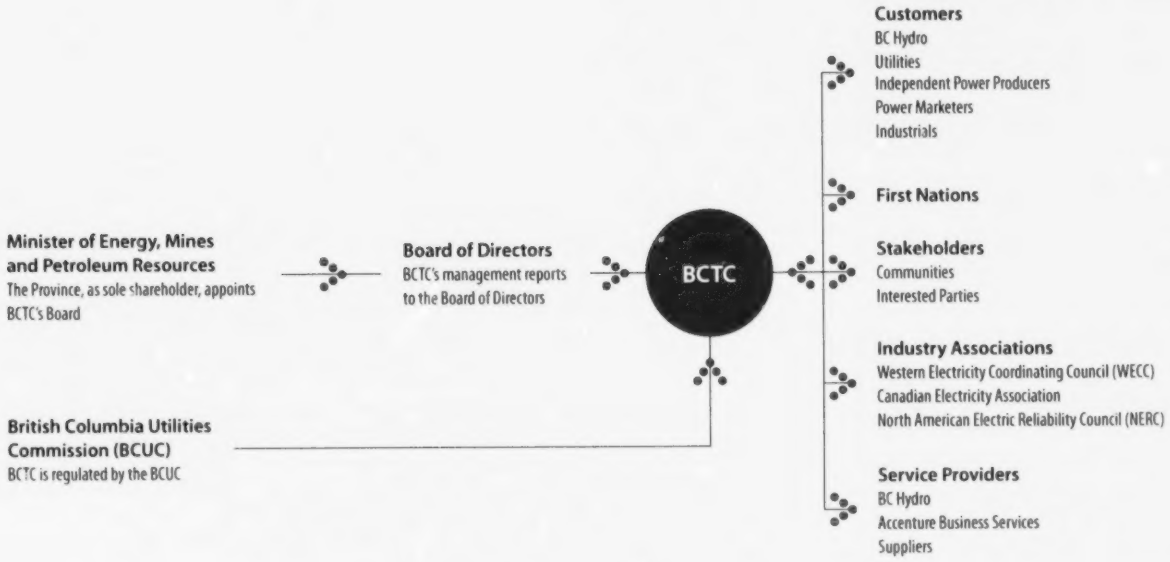
Major Capital Projects comprises five employees and is responsible for ensuring major projects, including the Vancouver Island Transmission Reinforcement Project and the SCMP, are executed successfully from inception to construction and commissioning.

BCTC's three corporate areas **Corporate Services, General Counsel** and **Human Resources** comprise 78 employees that are responsible for legal services, finance, audit, treasury, supply chain management, aboriginal relations, regulatory affairs, information technology, business improvement and human resources. The President & CEO's office has two employees.

A significant amount of BCTC's operating and capital activities are performed through agreements with BC Hydro. BCTC ensures the high quality and cost-effective delivery of these services through Service Level Agreements negotiated with BC Hydro and carefully constructed procurement policies applicable to contracts with other suppliers. BCTC continues to contract with BC Hydro for its expertise in Field Services and Engineering. This structure helps to keep BCTC's operating costs low and, in turn, keep rates low for customers.



Key Relationships



BCTC has a number of key relationships that are important to our operations and necessary in providing reliable service for our customers and benefits for British Columbians.

Shareholder: BCTC is a Crown corporation with the Province of British Columbia as the sole shareholder. BCTC reports to the Minister of Energy, Mines and Petroleum Resources. A ten-member Board of Directors, appointed by the Shareholder, oversees the operations of the company.

Regulators: BCTC is regulated by the Commission and seeks approval from the Commission for transmission system capital expenditures and the rates we charge customers, which include an allowed return to the Shareholder. In addition, some of BCTC's activities are subject to other regulatory bodies such as the National Energy Board and the Environmental Assessment Office.

Customers: BCTC works with all eligible transmission customers to ensure open and fair access to the transmission system. We coordinate all transmission transactions in order to operate the system safely and reliably.

BCTC's largest transmission services customer is BC Hydro. BCTC provides BC Hydro with a highly flexible transmission service necessary to deliver electricity to customers in BC, including to wholesale customers such as FortisBC and the City of New Westminster.

BCTC also provides point-to-point transmission service to power marketers, generators, and industrial customers for trade or to serve large customers who choose to purchase their electricity from suppliers other than BC Hydro. In addition, BCTC provides engineering studies and interconnection services to independent power producers (IPPs) and utility generators seeking to interconnect to the BC grid.

First Nations: BCTC is committed to an open and transparent planning process so that First Nations are informed and actively involved in discussions about electricity planning and major transmission issues in the province.

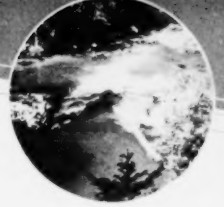
Stakeholders: Stakeholders' views are important considerations in planning and implementing projects and regulatory applications. BCTC's principal stakeholders are industry participants, local municipalities, community and environmental groups, and government.

Industry associations: BCTC is actively involved in regional and national organizations promoting safe, reliable and cost-effective operation of the grid. We participate in the Western Electricity Coordinating Council and the North American Electric Reliability Corporation.

BCTC is also part of the Canadian Electricity Association (CEA), which is the national association and voice of the electricity business in Canada. Being part of the CEA ensures BC's perspectives and views are represented in a national forum.

Service providers: BCTC's service providers deliver specialized services such as field, engineering, vegetation management, and information technology services.

BCTC is continually assessing the strength of its relationships and satisfaction with the service we provide. An annual Stakeholder Survey measures how well BCTC is meeting the expectations and needs of customers and stakeholders, and is one of our key measures of performance.



Alignment with Government Strategic Plan, Energy Plan and Shareholder's Letter of Expectations

BCTC's vision is to be globally-recognized for our innovative and sustainable approach to serving our customers. This aligns with the Government's Strategic Plan and Shareholder's Letter of Expectations, as well as with the Government's 2007 Energy Plan.

Government's Strategic Plan

BCTC directly supports two of the Five Great Goals outlined in the Government's February 2006 Strategic Plan: to lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none; and to create more jobs per capita than anywhere else in Canada.

To support these Goals, BCTC operates within a comprehensive Environmental Management System, which offers a rigorous framework for identifying and managing risk, and mitigating our environmental impacts. We have taken significant steps to address our environmental performance, including initiatives for the management of contaminated sites and the reduction of sulphur hexafluoride (a greenhouse gas used in power switching equipment). A heightened focus on the performance of our contractors helps us to protect the plant and animal species living around BCTC operations.

BCTC's operations are at the core of the provincial electricity industry. We play a central role in providing customers with reliable low-cost power. In addition, BCTC facilitates the development of new business opportunities in the energy sector, such as technology development and independent power generation. These activities are helping the provincial economy thrive, and are helping to create jobs throughout BC.

The 2007 BC Energy Plan

In February 2007, the Provincial Government released *The BC Energy Plan: A Vision for Clean Energy Leadership*.

The four themes of the 2007 Energy Plan are:

- Environmental leadership;
- Energy conservation and efficiency ;
- Energy security; and
- Investing in innovation.

Based on those themes and the Policy Actions in the new Energy Plan that are directly or indirectly relevant to electricity transmission, BCTC has identified the following priorities to implement the Energy Plan:

1. Grid Development: Expand and maintain the grid to enable the self-sufficiency objective, integrate intermittent and renewable energy, and relieve congestion.
2. Reliability: Ensure the grid is reliable and that British Columbia is consistent with North American reliability standards.
3. Conservation/demand side management (DSM): Implement a loss reduction strategy in support of provincial conservation targets.
4. Innovation: Apply technology and innovation to support Energy Plan objectives.

Last fall, BCTC's Board of Directors updated the company's corporate strategy. This updated strategy closely aligns with a number of the Energy Plan priorities, particularly in areas of improving grid access, efficiency, and reliability. Emerging industry trends, such as amendments to the Open Access Transmission Tariff (OATT) and new industry-wide reliability standards being adopted across North America also align with Energy Plan priorities.

As such, BCTC sees the 2007 Energy Plan as a driver to push beyond its existing priorities. It builds on and expands from the 2002 Energy Plan, which guided the direction BCTC is taking with its capital planning, grid maintenance, system operations strategies, and improved interconnection processes. In some cases, such as the congestion relief policy, it takes grid enhancement a useful step further than BCTC's tariff and Expansion Policy could otherwise go. In others, such as adoption of Mandatory Reliability Standards, it grounds current activities in a solid policy footing.

Report on Performance

Each year, BCTC establishes a set of goals, objectives, strategies, performance measures and targets to move the company toward our goal of being globally-recognized as an innovative, sustainable transmission company.

This Report on Performance is organized around BCTC's six strategic goals:

1. Achieve reliability improvements while lowering costs and delivering outstanding service.
2. Ensure efficient use and development of the transmission system.
3. Continually improve our environmental and safety management performance.
4. Build open and constructive relationships with First Nations and stakeholders.
5. Build an engaged and highly skilled workforce.
6. Deliver the allowed return to our shareholder annually.

BCTC's corporate goals are closely linked to our mandate:

Goal One is at the centre of BCTC's mandate to operate the transmission system in a cost-effective and reliable manner for the benefit of our customers. This has been and will continue to be a core competency of the company.

Goal Two speaks to BCTC's responsibility for providing fair and open access to the grid to ensure its efficient use and to plan and integrate new generation projects in BC and facilitate trade.

Goal Three emphasizes the significance placed on safety and environment as fundamental values at BCTC and the province as a whole.

Goal Four addresses the need to consult with stakeholders and First Nations to fulfill BCTC's mandate to manage and expand the grid in an efficient manner.

Goal Five stresses the need to continue to enhance the unique skills required to plan, maintain, operate and expand the transmission system.

Goal Six means that BCTC must obtain its revenue requirement and manage expenses in pursuit of fulfilling its mandate.

This year's Annual Report measures BCTC's performance in relation to the targets contained in the F2006/07 to F2008/09 Service Plan (the 2006 Service Plan), published in February 2006.

Data integrity

BCTC is diligent in ensuring the accuracy and reliability of its performance information. A review of historical data confirms the availability, thoroughness and accuracy of source data before a measure is chosen. An external review by the consultancy Grant Thornton in 2004, and a subsequent update in 2006, reconfirmed our data collection processes and the integrity of our key performance indicators.

Financial information is provided through BCTC's audited financial results, while environmental and safety results are captured through BCTC's reporting procedures in these areas. Reliability data is gathered in BCTC's operational databases and analyzed for the purpose of internal and external reporting. The employee and stakeholder surveys are conducted by independent firms.

Internal data collection and performance reviews are conducted by professional staff, and confirmed through executive management review. In addition, BCTC's Human Resources, Safety and Environment Committee of the Board of Directors reviews performance results quarterly.

Benchmarking our performance

BCTC has initiated external and internal benchmarking programs where possible, allowing us to compare our performance over time to our peers. BCTC has a unique business model, in that the company does not own the transmission assets. This reduces the directly comparable benchmarks when analyzing our organization.

BCTC works with industry groups, such as the Canadian Electricity Association and independent firms, to identify appropriate benchmarks and gather data.

Refining our goals

Refining our goals and objectives and measures

In February 2007, BCTC published its F2008/09-F2009/10 Service Plan (the 2007 Service Plan). The corporate goals in the 2007 Service Plan are identical to the 2006 Service Plan with the exception of Goal 6, which was changed from "Deliver the allowed return to our shareholder annually" in 2006 to "Manage costs and revenues to meet service obligations" in 2007. The revision was made to highlight the significance of managing costs and revenues in the process of delivering the allowed return to the shareholder.

The objectives in the 2007 Service Plan are also identical to the objectives in the 2006 Service Plan, with a small exception. In the 2007 Service Plan, Goal 3 (environment and safety) adds the word "continually" to "focus on enhancing our performance in these areas..." and some wording has been modified, but the substance is unchanged.

At its May 2006 meeting, BCTC's Board made the following changes in F2007performance measures from the measures published in the 2006 Service Plan. The performance measures in the 2007 Service Plan are identical with the Board-amended measures. The changes were as follows:

Measure:	Changes in May 2006 to the 2006 Service Plan and Explanation
Lost time safety accidents (BCTC and contractors)	Consolidated the two safety metrics into a single measure with data collected and evaluated in two parts. No change was made to the substance of either metric.
Congestion	In the Service Plan, BCTC proposed adding a measure for congestion. This measure was intended to reflect BCTC's capability to operate the transmission system in a manner that created more transmission capacity for customers when they need it most. In May 2006, the Board of Directors approved this as an internal informational measure, allowing additional historical data to be gathered prior to the measure being considered for status as an external corporate performance measure.
Net Income	In the Service Plan, BCTC proposed adding a measure for net income. In May 2006, the Board of Directors decided that net income would not be added as a corporate measure because the controllable component of the measure, expenses, is captured by the OMA/GWh-km measure.

Goal One

Achieve reliability improvements while lowering costs and delivering outstanding service

Objectives

Pursue incremental improvements in overall reliability performance trends. Manage overall operating cost levels to offset annual inflationary increases. Define and measure service levels to customers.

Strategies

- Pursue specific cost-reduction initiatives with targets for both operating and capital expenditures.
- Actively manage costs and services received from service providers and suppliers, while building sustainable relationships with them.
- Increase focus on emergency preparedness and security.
- Increase BCTC's knowledge of the relationship between reliability improvement expenditures and outcomes.
- Implement reliability improvement programs.
- Increase BCTC's understanding of customers' reliability expectations.
- Strengthen BCTC's customer relationships and service focus through an account management approach, and greater understanding of customer needs and expectations. Develop key performance measures reflecting customer service needs.

Measure One

Reliability SAIDI (hours) – Planned and unplanned outages

Measure Two

OMA/GWh-km (cents) – Operating efficiency

MEASURE ONE: Reliability SAIDI (hours) – Planned and unplanned outages

F04 Actual	F05 Actual	F06 Actual	F07 Target	**F07 Actual**	F08 Target	F09 Target	
2.74*	2.33*	2.07	2.09	**4.23**	2.18**	2.16**	**Result: Target not met**

* *Historical results for F2004/05 have been corrected to reflect data collection variances caused by conversion from manual to automated systems. Since BCTC's targets are determined by a formula based on an average of historical results, adjusted by an improvement factor, this adjustment to actual performance affected our targets in Fiscal 2007 through Fiscal 2009.*

** *In the 2007 Service Plan, performance targets for F08 and F09 were 2.04 hours and 2.03 hours, respectively. The targets in this Annual Report reflect the application of BCTC's formula including final F2007 results. In calculating the F08 and F09 targets, the impact of four major storms was excluded from the formula. This had the effect of reducing the targets, making the targets harder to attain than if the weather events were not excluded.*

SAIDI (System Average Interruption Duration Index) is a measure of the reliability of the transmission system that BCTC operates and manages. It includes all planned and unplanned outages, and excludes interruptions attributed to generators. It is calculated as the average amount of time in hours across all transmission delivery points that service is interrupted in a year due to planned or unplanned outages.

Importance of the measure

SAIDI assesses BCTC's effectiveness in providing customers with a high level of service reliability for the transmission system.

Benchmark comparison
Currently, the best benchmark for Canadian transmission reliability can be found in the Canadian Electricity Association's (CEA) annual study of the Bulk Electricity System (BES).

The CEA's definition of SAIDI differs from BCTC's internal definition in three respects: the CEA uses a calendar year compared to BCTC's fiscal year; the CEA includes generation source outages whereas BCTC does not; and CEA's calculation includes only unplanned outages while BCTC SAIDI includes both planned and unplanned outages.

The most recent benchmarking results for comparison are from the CEA BES study for 2005 (based on calendar year). For the CEA BES benchmarking study, BCTC reports a SAIDI value, adjusted to conform to CEA reporting standards, of 1.7 hours compared to the CEA composite (weighted average) result of 1.9 hours.

A number of factors can contribute to the variability of SAIDI across companies, including geography, climate, system age, or the impact of significant events such as weather. Without normalizing for these factors, the peer to peer benchmarking comparison becomes very challenging.

Data source/reporting period
BCTC's Reliability Database Management System (RDMS) – April 1, 2006 to March 31, 2007.

Performance analysis

In the fall and winter of 2006, BC experienced eight wind and snow storms, and four of these were the most powerful in BC's history. The storms caused extensive damage to the transmission system and seriously affected BCTC's ability to operate the transmission system reliably. BCTC worked closely with BC Hydro to restore power to customers as quickly as possible. In many instances, restoration efforts were impeded by ongoing severe weather systems.

These incidents accounted for 40 per cent of the total SAIDI for Fiscal 2007. The remaining reliability SAIDI was within the range of the average performance over the past five years. In total, a loss of 1.5 million customer hours was recorded for the year.

Achievements
A secure, reliable transmission system is a key priority for BCTC, and we have the responsibility to ensure transmission technology and infrastructure remains leading edge and has the capacity to deliver power efficiently and reliably. BCTC is taking the necessary steps to continue to prepare for and respond to extreme weather occurrences in the future.

When outages occur, BCTC restores power quickly to as many delivery points as possible, and then begins the necessary repairs. This approach minimizes the impact on customers.

To prevent outages in the first instance, our Edge Tree Program proactively identifies and removes hazard trees growing near the transmission system that are at risk for falling into the lines. In Fiscal 2007, BCTC completed the third year of this 10-year initiative.

BCTC's Woodpole Bonding Program also prevents outages caused, in this case, by pole top fires on 60 kV and 138 kV wood pole structures. Under the program, fire-mitigation equipment was added to 6,000 wooden structures in Fiscal 2006 and 8,500 structures in Fiscal 2007.

BCTC continues to make investments in technology and infrastructure and adhere to recognized North American industry standards. Continuous improvement teams have been formed to identify and implement ongoing enhancements and efficiencies in our agreements with BC Hydro.

Investing in innovation

As the manager of a complex and high-value transmission grid, BCTC is introducing technology to improve the performance of the system. This allows for more efficient use of an increasingly complex system, and brings improved reliability to our customers.

BCTC is implementing its new System Control Centre. When this state-of-the-art facility is completed, modern management systems will allow BCTC to manage system growth and improve the security of BC's electricity grid.

BCTC is one of the first utilities in North America to incorporate real-time phasor measurement into its operations. Phasors provide highly accurate and up-to-the-minute information about the state of the transmission system. With this information, our operators can monitor system conditions, identify possible problems and prevent outages from happening.

Investing in our assets

Strong economic growth in BC has increased the demand for electricity throughout the province. BCTC is advancing new projects throughout BC, enhancing the capability of the system and extending the life of aging equipment. BCTC will invest $3.2 billion over the next 10 years to provide a secure and reliable transmission system.

Substations are a critical component of the electricity grid, taking power from the voltage at which it is generated and transforming it to the voltage used in homes and businesses. New substations are being constructed to serve rapidly-developing regions across the province; three new substations came into service in Fiscal 2007 to support the growing load in Langley, Maple Ridge, and Fort St. John; a fourth substation at Whistler went into service in early Fiscal 2008; and a fifth station in the Fraser Valley will be brought into service in Fiscal 2008.

Vancouver Island is one of the fastest growing regions in the province, with electricity needs projected to grow by 45 per cent over the next 20 years. BCTC began construction of the Vancouver Island Transmission Reinforcement Project in Fiscal 2007. BCTC is replacing and upgrading the existing 138 kV facilities that connect the Lower Mainland to Vancouver Island and the Southern Gulf Islands. Work on this project will continue through Fiscal 2008.

BCTC has also been examining ways to reinforce the transmission system between the Interior and the Lower Mainland by 2014. Two alternatives are currently being studied. The first is an additional 500 kV transmission line between Merritt and Coquitlam, along an existing right-of-way. The second consists of upgrades to existing transmission lines and stations.

BCTC has conducted more than 40 meetings with stakeholders on this project, and will continue to engage in public consultation, discussions with First Nations, environmental studies, and additional engineering and cost analyses, before confirming the preferred solution for this project.

Improving system performance and security

BCTC plays a key role in determining industry reliability standards for the electricity grid in the Pacific Northwest. In Fiscal 2007, Doug Little, BCTC's Vice President, Customer and Strategy Development, was elected to the Board of Directors of the Western Electricity Coordinating Council, the electricity industry reliability organization covering BC, Alberta, fourteen Western US states and Northern Baja, Mexico.

BCTC maintains a comprehensive emergency response program. In Fiscal 2007 BCTC adapted the use of wireless handheld devices so that emergency personnel can quickly access up-to-date plans and contacts. This improves response time, enables communication and action even if networks are down, allows response from remote locations, and gives respondents up-to-date information at their fingertips.

Looking ahead

Consistent with the new Energy Plan, BCTC will continue to work with Government, industry participants and other utilities to implement North American standards for comprehensive, consistent, and mandatory transmission reliability standards in BC. BCTC plans to consult with industry on this initiative over the coming year. Any mandatory standards in BC will be approved and enforced by the Commission, and not US-based organizations.

As part of an overall innovation strategy, BCTC is developing a Power Technology Roadmap to ensure the introduction of innovative, economic technologies that will help to increase the efficiency and reliability of BC's transmission system.

BCTC is developing its interface between the Geographical Information System and Google Earth to create emergency response applications. For example, working with the Ministry of Forests and Range, BCTC has integrated the forest fire mapping system with Google Earth to quickly and accurately identify the locations of fires relative to the transmission infrastructure. Google Earth is an internet-based 3D mapping program that combines satellite imagery, aerial photography and GIS systems to provide a three dimensional representation of world geography.

MEASURE TWO: OMA/GWh-km (cents) – Operating efficiency

F04 Actual	F05 Actual	F06 Actual	F07 Target	**F07 Actual**	F08 Target	F09 Target	
20.5	18.9	19.0	18.7	**18.7**	18.0*	18.4*	**Result: Target met**

* *In the 2007 Service Plan, performance targets for F08 and F09 were 18.7 cents and 18.3 cents, respectively. The targets in this Annual Report reflect updated forecasts for OMA and GwH.*

Operating Efficiency – Operation, Maintenance and Administration (OMA) (cents) / GWh-km is a measure of cost efficiency in operating and managing the transmission assets. It measures OMA costs in relation to the volume of energy delivered to domestic customers and the length of the transmission system managed.

Importance of the measure

This measure looks at how effectively BCTC is using the operating budget to manage electricity delivery on the transmission system. The results will inform BCTC's decisions to improve and streamline business and operation processes to ensure cost-effective operations.

Benchmark comparison

BCTC participates in the Canadian Electricity Association's Committee on Corporate Performance and Productivity Evaluation (CEA/COPE) study. The CEA/COPE definition of energy transmitted includes both domestic load and trade volumes. In comparison, BCTC's definition of energy transmitted excludes transmission system use for purposes other than serving domestic customer requirements.

The most recent benchmarking results available for the CEA/COPE study are for Fiscal 2006. Adjusting BCTC's results to conform to the CEA/COPE definition, BCTC reports 16.2 cents per GWh-km compared to the CEA composite (weighted average) of 15.8 cents per GWh-km.

A number of factors can contribute to the difference in performance across companies, including geography, climate, growth rate, system age, or the impact of significant events such as weather. Without normalizing for these factors, the peer-to-peer benchmarking comparison becomes very challenging. Through the CEA, BCTC is actively working with other utilities in defining performance metrics that are accurate, verifiable and comparable. Even though direct comparisons are challenging, one of the benefits of participating in the annual study is to learn of the best practices used by other companies and adopt those that are useful in BC.

Data source/reporting period

The OMA numbers are derived from BCTC's internal financial systems. Load forecast and results are supplied by BC Hydro. Kilometre information is derived from internal planning reports.

Performance analysis

BCTC met the OMA/GWh target for Fiscal 2007, with a performance of 18.7 cents. A breakdown of the measure components follows:

- OMA: Annual OMA expenditures were $180.7 million – $1.2 million or 0.7% below the annual budget of $181.9 million. This had a favourable impact on results of 0.1 cents.
- GWh: Annual domestic energy volume delivered by BC Hydro of 53,111 GWh was 0.2% below the forecast of 53,217 GWh. This had an unfavourable impact on results of 0.1 cents.
- Kilometres of transmission lines: This number is a constant for the year at 18,234 km.
- Calculation: $180,700,000 / (53,111 x 18,234) = 18.7 cents.

Managing our costs

Reliability performance and prudence in spending are areas of focus for BCTC. BCTC spends approximately $80 million on maintenance and $89 million on sustaining capital expenditures annually.

In Fiscal 2007, BCTC optimized several maintenance programs, saving $2.5 million. Using analytical prioritization tools – such as a stations inspection and ranking program, reliability centred maintenance, and prioritized conditions-based maintenance – helped drive down maintenance costs without any negative consequences for safety or system reliability.

In addition, BCTC is applying a special coating to some existing steel towers to extend their life by about 25 years – minimizing the need for costly replacement and maintenance.

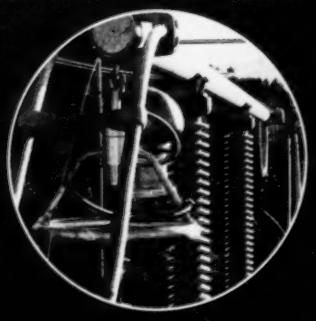
BCTC carefully studies opportunities to use capital investment as a means to reduce operating costs. BCTC is replacing existing mechanical temperature monitors with newer, more accurate electronic monitors on station transformers, enabling the equipment to operate to maximum capacity without overheating. In addition to improving performance, this reduces maintenance costs as the monitors are self-checking.

BCTC is also actively managing costs and services received from service providers and suppliers. For example, BCTC worked with BC Hydro to identify ways to increase the efficiency of water use by designing new system control practices to reduce generation costs.

In partnership with SNC Lavalin-ATP, BCTC entered a design-build contract for engineering, procurement and construction of five new substations. This enables BCTC to make cost-effective infrastructure investments and has helped BCTC to develop internal risk assessment and engineering capabilities that will be important for future projects.

Looking ahead

In Fiscal 2008 and beyond, BCTC will continue with cost containment efforts to deal with inflationary pressures on our costs. Examples include executing procurement strategies to address price and schedule certainties and working with forest licensees and the Ministry of Forests and Range to have forest companies log diseased stands adjacent to the transmission system.



Recognizing our innovation

In Fiscal 2007, the Edison Electric Institute, an international association of electricity companies, recognized our leadership in advanced technology. BCTC is one of two finalists for the prestigious Edison Award, honouring distinguished leadership, innovation and contribution to the advancement of the electricity industry.

BCTC is being recognized for the application of advanced technology to monitor cable conductor temperatures in real-time and then applying the information to maximize the power transfer capability of existing 500 kV submarine cable systems. This technique allows BCTC to increase the power transfer limits of existing assets and corridors at modest cost, deferring the requirement for new facilities.

Goal Two — Ensure efficient use and development of the transmission system

Objectives

Proactively seek ways to enhance electricity industry activity on BC's transmission system – resulting in increased services used and new transmission service customers. Make the system available to allow expanded access to market opportunities, limiting congestion and curtailment on the system.

Strategies

- Review and revise the design of the Open Access Transmission Tariff and services offered to customers to ensure that they encourage efficient use of the system.
- Ensure tariff business practices, including the interconnection process, are workable and efficient for customers.
- Investigate incentives for locating generation and load to reflect benefits to the transmission system.
- Participate in BC Hydro planning processes to ensure that the Commission has information about both generation and transmission options so that least cost solutions for the overall system can be pursued.
- Proactively seek opportunities for new customers to use the transmission system and supply ancillary services to BCTC, as appropriate.
- Implement an Expansion Policy that enables investments in the transmission system in advance of demand (under Special Direction 9).
- Explore inter-regional transmission development plans and develop proposals that benefit BC.
- Pursue greater regional coordination and cooperation with Alberta Electric System Operator and the Bonneville Power Administration in particular.

Performance measurement

As noted above, the 2006 Service Plan contained a transmission congestion-related performance measure. It was intended to reflect BCTC's performance in operating the transmission system to provide maximum transmission capacity for customers when they need it most. In May 2006, the Board of Directors concluded that the measure should be deemed "informational," subject to management review, but not a corporate performance measure. This was done to allow additional historical data to be gathered on actual performance.

Performance analysis

BCTC strives to enhance electricity activity on the transmission system by minimizing congestion, ensuring the grid is available to all customers, and increasing access to other markets. Finding ways to eliminate bottlenecks is an important element of the planning and operating processes. As a result, in May 2006, the Board of Directors recommended an informational measure that will help identify congestion levels and the effectiveness of BCTC's operational responses on specific parts of the system.

In Fiscal 2007, BCTC began tracking and analyzing transmission congestion at the US and Alberta interties.

Achievements

Enhancing service for our customers
In Fiscal 2007, BCTC developed for the Commission a comprehensive rate design report that considers a number of upgrades to the tariff, and highlights the costs and benefits of more fundamental reforms. BCTC will be consulting on this report with customers in Fiscal 2008, and an application for the resulting tariff changes is expected later in Fiscal 2008.

In the report, BCTC explored whether changing the existing Open Access Transmission Tariff (OATT) to include alternative cost-based rate designs would promote more efficient use of and competitive access to the transmission system. The report also assessed the use of non-wires solutions, including encouraging generators to locate in a specific area or operate in such a way as to defer or remove the need for new transmission.

During F2007, a 10-year debate on the appropriate use of the Network Economy Transmission Service was resolved. Working with our customers, BCTC negotiated a settlement on the appropriate use of this service. The agreement is important to BCTC's customers who import or export power through our system, particularly between Alberta and the United States.

Connecting our customers
In Fiscal 2006, BCTC completed 77 studies to support BC Hydro's 2006 call for electricity generation. From that call, BC Hydro selected 38 projects, and of these, 22 projects will be connected directly to the transmission system. In Fiscal 2007, BCTC commenced 20 impact and facilities studies necessary for these projects to proceed. BCTC will tender facilities and interconnection agreements to each IPP and construct interconnection facilities once these studies are completed.

BCTC is also responsible for interconnecting industrial customers served at transmission voltage. BCTC conducts studies and constructs interconnection facilities to accommodate new customers and those with growing demand. In the past year, BCTC conducted 18 preliminary studies and nine of those projects have now proceeded into the construction phase.

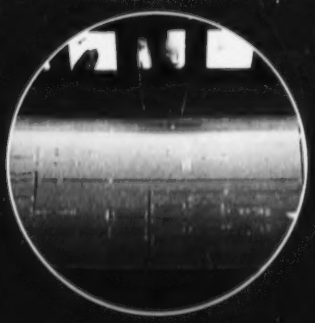
Establishing agreement with our partners in the Pacific Northwest
BC's transmission system is connected to the Bonneville Power Administration (BPA) system in the Pacific Northwest. In Fiscal 2007, BCTC and BPA reached a new agreement to facilitate energy transactions and ensure greater regional coordination and cooperation. This has resulted in joint committees to consider operations and long-term system planning issues.

Looking Ahead

BCTC has offered Dynamic Scheduling service to California since Fiscal 2006. This service allows marketers to sell valuable energy services to California for the purpose of managing short-term demand changes in that market. Next year BCTC is looking to expand Dynamic Scheduling service offerings.

BCTC is also exploring opportunities with Alberta to reinforce the transmission interties between the two provinces to maximize trade benefits and capture the reliability that comes from having robust transmission links.

In Fiscal 2008, BCTC will work with the Province to develop a Congestion Relief Policy. This policy will identify cost-effective opportunities to remove existing system congestion and will ensure that the system will be planned to prevent future congestion. This policy is a critical element of the Province's plan to achieve electricity self-sufficiency.



Demonstrating our leadership in regional integration

Regional integration and coordination are fundamental principles for a reliable and secure transmission grid. BCTC demonstrated leadership and technical expertise in leading the development and implementation of the ACE Diversity Interchange (ADI) pilot project. BCTC, as the host, is coordinating with four control areas operated by Idaho Power Company, NorthWestern Energy and PacifiCorp on this project.

ADI is the pooling of momentary imbalances of generation and load, known as Area Control Errors (ACE). Pooling the ACE from several control areas eliminates some of the inadvertent or unscheduled movement of electricity, with no negative effect on the region as a whole.

By pooling ACEs, participants can reduce control burden on individual control areas while maintaining reliability; reduce sensitivity to resources with intermittent output, such as wind projects; and reduce unnecessary generator control movements, minimizing generator maintenance requirements.

Customer satisfaction results from the four participants have been excellent, and discussions with additional participants are underway.

Goal Three

Continually improve our environmental and safety management performance

Objective

Focus on enhancing performance while maintaining BCTC's excellent safety results and working with contractors on safety management, minimizing the number of environmental incidents, and recognizing the risks inherent in BCTC's operations.

Strategies

- Ensure the Safety and Environment Management Systems are continuously reviewed for improvement opportunities.
- Manage all contractors to ensure they meet BCTC's environmental standards.
- Seek ongoing improvements in contracting practices for the oversight and review of contractors' safety management.
- Continue efforts to communicate and implement efforts to ensure a transmission system that is safe for workers and the public.

Measure One

Number of lost-time accidents (BCTC and contractors)

Measure Two

Reportable environmental incidents

MEASURE ONE: Number of lost-time accidents (BCTC and contractors)

	F04 Actual	F05 Actual	F06 Actual	F07 Target	**F07 Actual**	F08 Target	F09 Target	**Result:**
BCTC	0	0	0	0	**0**	0	0	**Target met**
Contractors	25	27	18	23	**6**	17*	16*	**Target exceeded**

* *In the 2007 Service Plan, performance targets for F08 and F09 were 22 and 21 accidents, respectively. The targets in this Annual Report reflect the application of a formula based on an average of historical results, adjusted by an improvement factor.*

Number of lost-time accidents measures injuries that result in an employee or contractor being absent from work beyond the date of the injury. BCTC now includes transmission staff and contractors in the performance numbers. In the future, the contractor portion of the measure will also include all subcontractors who conduct work on the transmission system.

Importance of the Measure

This measure supports the fundamental objective of safety at BCTC, and is consistent with the definition of lost-time accidents used by WorkSafe BC. BCTC is fostering change in the industry by reporting contractor safety performance to the Canadian Electricity Association (CEA). This acknowledges the role of contractors in our business and continues to translate BCTC's safety principles into action.

Benchmark Comparison

The Canadian Electricity Association (CEA) tracks safety performance metrics. BCTC submits annual performance results to the CEA on the following industry-wide metrics: all injury frequency rate, lost time injury frequency rate and lost time injury severity rate. BCTC's metrics are not directly comparable to the CEA's because BCTC reports the number of events, whereas the CEA reports injury rates in relation to hours worked. BCTC's performance based on the CEA's measures and the electrical industry member composite performance are shown below for 2006. The frequency rate in the table below is per 200,000 hours of work time. As a reference, BCTC's employees cumulatively work approximately 600,000 hours per year.

	All Injury Frequency Rate	Lost Time Injury Frequency Rate	Lost Time Injury Severity Rate
BCTC (employees only)	0.00	0.00	0.00
CEA Composite	2.84	0.79	17.60

Data Source/Reporting Period

CEA 2006 Safety Incidents Statistics Report. These statistics are reported on a calendar year basis.

Performance analysis

BCTC has a comprehensive Safety Management System that ensures we conduct our operations in a safe manner to minimize the risk of injury to employees, contractors and the public. The system incorporates safety principles, management practices and performance measures, and is consistent with the standards published by the International Organization for Standardization (ISO) and incorporates the safety management expectations of WorkSafeBC.

In Fiscal 2007, BCTC exceeded the target for both employee and contractor number of lost-time accidents. This result was due to BCTC's additional focus on employee and contractor safety. Initiatives in Fiscal 2007 included conducting job hazard assessments and more frequent inspections to correct unsafe acts or commend safe work and increasing scrutiny in evaluating contractor safety programs and safe work procedures.

For the third consecutive year, BCTC received the Gold President's Award of Excellence for Employee Safety from the Canadian Electricity Association (CEA) in Fiscal 2007. This award recognizes our superior safety performance.

Achievements

Safety in all we do

BCTC incorporates stringent safety policies and practices in our day-to-day operations, and is continuously identifying areas of improvement. In Fiscal 2007, BCTC put particular emphasis on improving contracting oversight practices and contractor safety management.

In 2005, BCTC established a Multiple Employer Workplace Agreement with BC Hydro, defining each organization's occupational health and safety obligations for workers at multiple employer workplaces as required under the Workers Compensation Act. In Fiscal 2007, the roll-out of this agreement ensured the additional workplace requirements of contractors are managed appropriately.

BCTC also implemented a number of safety management initiatives. A communications protocol was established between BCTC's operators and BC Hydro's field staff, clearly defining the roles and responsibilities of these teams when working together. BCTC adopted a program of Error Management in Real Time Operations. This program, modeled after practices in the aviation industry, focuses on reducing potential errors that could cause injury, system outages or damage. A number of comprehensive training sessions on Error Management took place throughout Fiscal 2007 for operators and field workers across the province.

Looking ahead

The Safety Management System will be reviewed in Fiscal 2008 for improvement opportunities.

BCTC will continue to ensure that our contractors are meeting BCTC's safety standards by revising the safety performance metrics of service providers to improve their conformance with safety management systems.

Training sessions will be provided to BCTC Staff and Contract Managers with respect to due diligence practices and regulatory requirements. These are part of an ongoing effort by BCTC to enhance core competencies and accountability in a key area of our business: contractor management.

BCTC has restructured the documentation within our Safety Management System to ensure that BCTC staff and contractors understand their roles and responsibilities. BCTC will be refining the operational tools that staff and contract managers use to evaluate the safety conformance and compliance of contractors. The first phase of this training will take place in vegetation management in mid-year, with construction managers following soon thereafter.

In addition, BCTC will work with BC Hydro to implement the Joint Safety Review Committee and related management processes to improve safety management on issues involving the two organizations.

Safety in all we do

BCTC's Safety Management System is rigorous and incorporates the stringent standards of industry-accepted regulation. The Canadian Electrical Association (CEA) has recognized our efforts.

BCTC received the Gold President's Award of Excellence for Employee Safety, the highest level of recognition available from the CEA. The award honours a member utility that ranks within the top quartile of their grouping for three or more consecutive years.

The President's Award of Excellence is based on the results of CEA's Annual Safety Incident Statistics Report for 2005.

MEASURE TWO: Reportable environmental incidents

F04 Actual	F05 Actual	F06 Actual	F07 Target	**F07 Actual**	F08 Target	F09 Target	
3	10	12	7	**13**	9*	9*	**Result: Target not met**

* *In the 2007 Service Plan, performance targets for F08 and F09 were seven incidents and seven incidents, respectively. The targets in this Annual Report reflect the application of a formula based on an average of historical results.*

Reportable environmental incidents track BCTC's environmental performance in relation to environmental standards and regulations set by various regulatory agencies.

Importance of the Measure

The measure focuses BCTC on minimizing environmental incidents, and supports our guiding principles for environmental responsibility and the Government's Energy Plan's focus on environmental leadership.

Benchmark Comparison

The CEA environmental benchmarking studies measure the volume of spills, not the frequency of reportable incidents, making a direct comparison challenging. Adding to this issue, standards for environmental incident reporting can vary by province. As a result, BCTC uses historical performance data and root cause analysis to determine areas for improvement.

Data Source/Reporting Period

BCTC monitors and reports any and all incidents as they occur according to provincial and federal environmental reporting requirements. The reports provide a source of data with which to analyze BCTC's performance on this measure. In addition, as our primary service provider, BC Hydro reports on its environmental compliance measure separately. All incidents are reported on a fiscal year basis.

Performance analysis

BCTC did not meet our performance target for reportable environmental incidents in Fiscal 2007.

During Fiscal 2007, BCTC launched an Environmental Management Enhancement Initiative, resulting in significant changes in the way we manage our environmental practices. This initiative involves the systematic improvement of management system governance, data collection and distribution, incident analysis, and staff responsibilities.

BCTC now has greater confidence that fewer incidents are going unreported and all incidents are being reviewed and acted on. In addition, environmental incidents that would fall outside of our corporate performance target, or near-misses, are also now being reported. Action is being taken to prevent circumstances that could contribute to future reportable environmental incidents.

None of the environmental incidents in Fiscal 2007 resulted in fines, penalties, or follow-up actions by environmental regulators.

As part of the EMS Enhancement Initiative, BCTC undertook an analysis to understand the root cause of our environmental performance. Of the 13 incidents in Fiscal 2007, nine were considered to be the result of non-conformance with established procedures. BCTC has taken steps to address these non-conformances in order to improve our environmental performance in Fiscal 2008.

BCTC has implemented formal and regular inspections and developed a mandatory training program for third-party contractors to ensure awareness of and compliance with BCTC's environmental procedures. The contracting process now includes performance metrics and better management reporting requirements to meet our stringent processes.

Achievements

In Fiscal 2007, BCTC took important steps to improve our environmental performance and to ensure that environmental priorities and best practices are reflected within the asset management program.

The EMS Enhancement Project has reformed the environmental management system and increased employee and contractor awareness of the potential impacts their activities have on the environment. This change will reduce the probability of incidents. BCTC has initiated the implementation of a cross-functional EMS and Safety Management System Leadership Team to improve and integrate these two related systems.

BCTC has also begun providing detailed analysis of environmental incidents and corrective actions to management teams at BC Hydro Field Operations and Engineering Services, as well as to BCTC field management teams. Additionally, BCTC has enlisted an independent expert to review environment incidents and identify improvement areas.

Implementing environmental best practices in the field

BCTC has established an oil containment program to address the potential risks of oil spills originating from transmission equipment. The program is composed of a detailed site risk assessment to determine the potential for environmental damage and identify solutions for reducing the risk. In Fiscal 2007, BCTC continued to assess the 97 sites identified, beginning with the highest risk, and made improvements to decrease risk exposure levels at these selected sites.

BCTC also continues to replace sulphur hexafluoride (SF6), an insulation material that produces greenhouse gases, in equipment such as circuit breakers, substations and switching gear. Use of the insulating gas began in the mid-1970s.

Looking ahead

In Fiscal 2008, BCTC will continue to integrate stringent and consistent environmental best practices into our business processes, including those involving third-party contractors. We will further monitor and report the ability of contractors to meet the stringent environmental standards of our Environmental Management System.

Over the coming year, BCTC will continue to improve environmental management process controls. We will also evaluate and replace equipment as necessary to prevent and minimize impact of our activities on the environment.

Goal Four

Build open and constructive relationships with stakeholders and First Nations

Objective

Continue to develop relationships with stakeholders and First Nations so that consultations on BCTC's plans and proposals are productive and maintain the current high level of positive or neutral responses from our stakeholders.

Strategies

- Build in First Nations and stakeholder considerations early in BCTC's planning and engage First Nations and stakeholders early as part of BCTC's consultation activities.
- Expand First Nations working involvement in BCTC projects and programs.
- Participate actively in municipal government forums to develop positive relationships with these community representatives and to understand their needs.
- Ensure BCTC's outreach program focuses on those communities where existing and future transmission system impacts are greatest.
- Sustain a positive, open and cooperative relationship with the Commission and intervenor groups.
- Ensure the provincial government is fully apprised of BCTC's business objectives and operations.

MEASURE: Stakeholders response – per cent neutral, positive, very positive

F03 Actual	F04 Actual	F05 Actual	F06 Actual	F07 Target	**F07 Actual**	F08 Target	F09 Target	
N/A	88%	87%	91%	88%	**91%**	90%*	90%*	**Result: Target exceeded**

* *In the 2007 Service Plan, performance targets for both F08 and F09 were 88%. The targets in this Annual Report reflect the consideration of F07 results.*

Stakeholder response measures how well BCTC is meeting the expectations and needs of customers and stakeholders. An annual survey measures stakeholder awareness, impressions and satisfaction with BCTC, reported as the percentage of stakeholders who have a neutral, positive or very positive impression of BCTC.

Importance of the Measure

The Stakeholder Survey results assist BCTC in refining corporate goals and future actions in light of the needs of customers and stakeholders. It also enables BCTC to compare our performance over time.

Benchmark Comparison

Comparable industry statistics are not available; therefore results will be compared to historical BCTC performance. BCTC now has the historical data to determine trends in performance, and is pursuing ways of comparing our performance to standards across a variety of industries.

Data Source/Reporting Period

A Stakeholder Satisfaction Survey was conducted by TNS Canadian Facts in March 2007. The survey included industrial and wholesale customers, independent power producers (IPPs), and local and provincial government officials.

Performance analysis

BCTC places significant importance on understanding the needs of First Nations and stakeholders. We work hard to keep British Columbians well informed of our plans and to provide interested parties with the opportunity to be actively involved in discussions about our plans and initiatives.

BCTC uses stakeholder surveys to understand the views of our stakeholders and their impressions of our performance. Our goal is to maintain the current good impressions that stakeholders hold about BCTC's performance.

In Fiscal 2007, we exceeded our stakeholder satisfaction target for the second consecutive year. The survey showed 91 per cent of stakeholders who participated hold a positive or neutral impression of BCTC.

Achievements

Partnering with First Nations
BCTC is committed to developing mutually beneficial relationships with Aboriginal people. In Fiscal 2007, BCTC launched the Aboriginal Business Development Program to build career skills and create opportunities for Aboriginal peoples and businesses to become long-term, valued suppliers.

BCTC is assisting with training and introducing new methods of awarding work to promote the inclusion of Aboriginal companies. Since the launch of the development program, over 40 Aboriginal-owned companies have registered to provide services to BCTC. Since the program was launched, BCTC has seen an increase in the number of Aboriginal businesses that submit proposals for work as well as a tripling in the value of the services provided.

Strengthening our public planning processes
BCTC employs an open and transparent consultation process that actively involves First Nations and stakeholders in the planning process. This is particularly important as we consider new transmission infrastructure and the challenges in advancing construction projects. A key element of this consultation process is our Transmission Planning Advisory Committee. This committee, which is made up of representatives of customers, other utilities, local government and First Nations, advises BCTC on significant transmission planning and policy issues. In Fiscal 2007, BCTC acted on the feedback of the committee to enhance our consultation processes and develop a new proposal to incorporate non-wires alternatives into BCTC's planning processes.

In Fiscal 2007, BCTC held its Provincial Planning Forum as two separate sessions: an evening public information session to involve the broader public and community; and a second technical session for customers and industry participants. Input gathered at these events helped to inform the development of BCTC's Capital Plan and define new ways for BCTC to better engage stakeholders.

Stakeholders have consistently endorsed BCTC's consultation process, identifying it as productive, informative and supportive of the regulatory process.

Investing in our communities
BCTC is also committed to investing in the future of BC communities through outreach activities. The Corporate Outreach Fund sponsors charitable initiatives that align with BCTC's priorities of environment, education and community development. In Fiscal 2007, BCTC supported organizations such as the Kanaka Education & Environmental Partnership Society, Art Starts in Schools, BX Swan Lake Fire Rescue, Galiano Conservancy Association, Ducks Unlimited, Engineers Without Borders and the Ucluelet First Nations Holistic Celebration of Health.

BCTC's corporate giving program donated $200,000 to charitable organizations across the province in Fiscal 2007.

In Fiscal 2007, BCTC donated $50,000 to Tree Canada Foundation as part of the Corporate Outreach Fund. We also donated $25,000 to the TELUS World of Science's Opening the Door program.

Looking ahead

Each year, BCTC refines the public planning process based on input from stakeholders, communities and First Nations. In Fiscal 2008, BCTC will conduct additional customer and stakeholder meetings to provide additional opportunities for discussion and input into specific planning activities.

Specifically, in the coming year, BCTC will:

- Begin consultation on potential BCTC initiatives arising out of the 2007 Energy Plan.
- Consider with stakeholders new elements of the planning process arising from changes to the industry-standard open access tariff.
- Consult with stakeholders on the adoption in BC of new industry-standard reliability measures and their adoption.
- Establish a comprehensive community relations program that will include major projects for example, a project to meet electricity needs between the Interior and the Lower Mainland.

Connecting with stakeholders

BCTC has a cross-functional working group overseeing the public planning process. The team's goal is to obtain customer, stakeholder and First Nations input into our annual capital plan, projects and programs.

Planning processes are important to meeting BCTC's strategic objective of open and constructive relationships with stakeholders and First Nations. The process ensures that proper consultation is completed.

Launched in 2004, the multi-level process provides many opportunities for involvement and comprises three integrated streams:

- Transmission Planning Advisory Committee
- Stakeholder Consultation & First Nations Engagement
- Project Specific Consultation

Goal Five — Build an engaged and highly skilled workforce

Objective

Develop an organization with employees who understand the business objectives, know how they are counted on to contribute, and who have the motivation and capabilities to achieve the results.

Strategies

- Secure the right skills for BCTC to achieve its objectives and implement its plans, through effective recruitment, retention, development and succession planning.
- Ensure BCTC employees are highly engaged in their jobs and BCTC's business – motivated, aligned, and with access to the appropriate resources to develop their capabilities.
- Continue to enhance the performance management system so that rewards are clearly linked to results.
- Review BCTC's employment offering (both financial and non-financial rewards for working at BCTC), in terms of the total cost and effectiveness of attracting and retaining high performing employees.
- Identify and fill critical capacity gaps within the organization.

MEASURE: Employee Engagement Index

F04 Actual	F05 Actual	F06 Actual	F07 Target	**F07 Actual**	F08 Target	F09 Target	
3.36	3.37	3.35	3.40	**3.55**	3.40*	3.42*	**Result: Target exceeded**

* *In the 2007 Service Plan, performance targets for F08 and F09 were 3.42 and 3.43, respectively. Notwithstanding the excellent results in F07, management anticipates a challenging period in the face of the pending consolidation of control centres and corresponding personnel disruptions.*

Employee Engagement Index is the result of an annual employee survey that measures perceptions on motivation, resource availability, capability and alignment to the goals and strategies of the organization.

Importance of the Measure

This measure is a leading indicator of BCTC's progress in developing a highly productive and engaged workforce. BCTC uses the results on this measure to shape ongoing employee initiatives.

Benchmark Comparison

BCTC's Employee Engagement result of 3.55 is higher than the average score of 3.51 in the Watson Wyatt WorkCanada Engagement Index study for 2006/07.

Data Source/Reporting Period

Watson Wyatt WorkCanada Engagement Index study for 2006/07.

Performance analysis

BCTC employs a highly skilled workforce with specialized skills in technology and customer service. Employees participate in national and international forums, and bring a breadth of knowledge and expertise to managing and operating BC's transmission system.

To track progress in creating a positive workplace, BCTC has adopted an Employee Engagement performance measure. In Fiscal 2007, BCTC's Employee Engagement Index score was 3.55 out of five. The result is a substantial increase over previous years' results. It exceeds both the corporate target and WorkCanada averages.

In Fiscal 2007, BCTC took focused actions to address concerns identified in the previous year's survey. These changes improved employees' alignment with the organization's goals and increased employees' belief that they possess the resources to meet BCTC's targets. Adding key resources, improving communications, and improving employee development opportunities are examples of the efforts taken during the past year.

Attracting and retaining employees in BC's competitive labour market requires a workplace culture that makes employees feel enabled, engaged, and supported. BCTC has created such a culture and this makes an important contribution to the organization's results.

Attracting new talent

In Fiscal 2007, BCTC added 25 new permanent positions across the company to address additional resource needs. Of these, 18 positions have already been filled, and recruitment efforts continue for the remaining seven positions. In total, BCTC filled 61 new and existing positions throughout the fiscal year. In addition to those 61 positions, BCTC provided 28 existing employees with new opportunities through advancement or lateral movement.

BCTC continued to develop new recruitment strategies, focusing on entry level recruiting through a university outreach initiative that includes sponsorship of the University of British Columbia's Power Engineering Option. With a focus on Western Canadian universities, BCTC participated in career fairs and information sessions at the Universities of British Columbia, Victoria and Alberta. We will be expanding our presence at more universities in Fiscal 2008.

As an important connection to future talent, BCTC launched an enhanced Co-operative Education Program targeting second, third and fourth year university students in various studies. Our focus is primarily on electrical engineers; however we also target other engineering disciplines and technology, communications and business students.

BCTC sponsored the 22nd Annual Western Engineering Competition (WEC) held from January 24-28, 2007 at the University of British Columbia. Approximately 200 students from universities across Western Canada participated in this event.

Investing in internal capabilities

During Fiscal 2007, we placed a priority on giving our employees opportunities for personal growth and career development. This included the launch of a new career development program for all employees. Plans are tailored to employees' individual development needs and career aspirations, and these are linked to opportunities and needs within the company.

BCTC also continued developing a Transmission Academy. This program transfers knowledge from existing team members to new engineering employees. The academy is designed to build the technical knowledge base of new engineering staff and provide BC-based learning experiences for new team members.

Recognizing our employees

BCTC recognizes and rewards high performance in our employees. In Fiscal 2007, BCTC enhanced its performance management system to clearly link individual recognition to our company's successes. To strengthen the pay-for-performance programs, we added team and individual measures to the Gainsharing program for unionized employees. We also revised the variable pay program for management and professional employees to better link performance pay with our corporate objectives and goals. Regular monitoring keeps the program focused even as priorities evolve.

Fiscal 2007 marks the fourth year of BCTC's Transmission Excellence Awards (TEA) program. This program recognizes significant accomplishment during the year. Each June, the TEA recognizes the innovation, technical excellence, customer service, or leadership demonstrated by employees over the past fiscal year.

Each year, BCTC awards up to three $2,000 scholarships to children of BCTC employees who plan to start or continue post-secondary studies. The award recognizes enthusiastic applicants with a balance of good academic achievement and strong commitment to extra-curricular activities.

Getting involved in our communities

BCTC gives back to the communities where our employees live and work. TransConnect is an employee-based corporate giving program that provides funding to the organizations that employees are involved with. In Fiscal 2007, eighteen organizations supported by BCTC employees received TransConnect funding, totalling almost $30,000.

Looking ahead

In the coming year, we will continue to build our workplace culture and take steps to improve the annual Employee Engagement results by:

- Developing annual business plans that balance workloads with resources.
- Recruiting the skill sets required by the company.
- Growing employee capabilities through internal career and skill development initiatives.

Through the annual survey, we will continue to seek employee feedback to help guide our actions at the corporate and individual levels. A regular review will help us identify successes, set priorities, and create action plans that will improve the way we operate as a company, as a team, and as individuals.

Goal Six — Deliver the allowed return to our shareholder annually

Objective

Ensure that actual net income results (after deferral accounts) are as planned each year.

Strategies

- Promote a strong internal focus on cost management - for both operating, maintenance and administrative (OMA) and capital expenditures - and ensure scrutiny on largest expenditure and risk areas.
- Ensure accurate budgeting and forecasting.
- Ensure annual risk management plans are effective in managing variability of costs.
- Gain regulatory approval of transmission revenue requirements.

Performance analysis

BCTC's financial goal is to manage costs and risks, and deliver the anticipated annual return to our Shareholder. For Fiscal 2007, BCTC achieved $2.7 million in net income, $1.2 million below planned level. The lower net income is due to reduced transmission rates for customers and modestly higher operating costs that reflect the growth in business activity.

While deferral accounts enable BCTC to cover unexpected annual revenue and cost fluctuations outside of the organization's control, BCTC has the responsibility to be disciplined in budgeting and controlling actual expenditures.

In May 2006, the Board of Directors determined that Net Income would not be used as a corporate measure because the controllable component of the measure, expenses, is captured by the OMA/GWh-km measure. BCTC has relatively little control over the revenue effects on net income because of the regulatory and tariff structure.

Enhancing our planning process

BCTC significantly improved business and capital planning process in Fiscal 2007. Ongoing review of business plan, budgets and resource allocation during the year contributed to the achievement of corporate objectives and a reduction in the operating budget from $167.2 million included in the Service Plan to $162.2 million, which was approved by the Commission in November 2006.

The F2007/08 – F2016/17 Capital Plan is the first capital plan produced using a new prioritization methodology. The Capital Plan now provides a better long-term view of investments by identifying more projects in the later years of the plan. The planning and asset management tools within the process have been improved.

Implementing financial improvements

BCTC designed and built a new Financial Modeling Tool that will be implemented in Fiscal 2008 to improve financial forecasts used for planning, budgeting and rate impact analysis.

Managing risks

BCTC is exposed to a variety of business and operating risks that can adversely impact our operational and financial performance. BCTC's Enterprise Risk Management framework is used to identify, assess, mitigate and monitor risks, increasing the probability that corporate and business objectives will be met.

In Fiscal 2007, BCTC launched a new initiative to re-evaluate the organization's risk profile and risk tolerances, and further embed the risk management system into the business and culture.

BCTC's approach to this project included:

- Developing risk impact criteria based on BCTC's corporate goals.
- Identifying potential risks that could impact BCTC's performance.
- Assessing the likelihood and impact of these risks on BCTC.
- Creating dedicated risk teams to address the mitigation of the key corporate risks.
- Identifying and implementing initiatives to mitigate the likelihood and impact from the risks.
- Involving employees in all phases of the risk management framework.

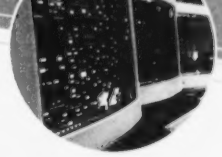
Through this project, BCTC has been able to achieve an in-depth understanding of risk exposure and has completed or launched new initiatives to mitigate this exposure.

Looking Ahead

BCTC's net income is forecast to increase to $5.6 million in Fiscal 2008, driven by increased capitalization to finance the System Control Modernization Project. BCTC's net income is determined based on the deemed capital structure defined in Special Direction No.9.

For Fiscal 2008, BCTC plans to maintain transmission rates at this year's level. BCTC is achieving this through effective cost management and adopting an Allowance for Funds Used During Construction (AFUDC) accounting and ratemaking treatment in place of the current Interest During Construction (IDC) method. This will not affect net income reported to the Shareholder.

Corporate Governance



Incorporated in 2003 and continued under the Business Corporations Act in 2003, BCTC is a Crown corporation with responsibilities specified in the *Transmission Corporation Act*. BCTC is governed by an independent Board of Directors appointed annually by the Shareholder. The Minister of Energy, Mines and Petroleum Resources is the Minister Responsible for BCTC. In Fiscal 2007, the Shareholder's Letter of Expectations between the Minister and BCTC was updated. The Letter sets out BCTC's mandate, performance expectations, strategic priorities and the respective roles and responsibilities between our Shareholder and BCTC. A copy of the letter is available on BCTC's website (www.bctc.com).

Board of Directors

BCTC's Board of Directors is responsible for the governance and stewardship of the Corporation. The Board confirms and maintains BCTC's corporate direction and strategy, assigning responsibility to management for achievement of that direction by approving strategic plans, defining limitations and monitoring management's performance against established objectives and limitations. The Board has three standing committees: the Audit Committee, Human Resources, Safety and Environment Committee and Corporate Governance Committee.

- The Audit Committee supports the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, internal controls, the relationship with the external Auditors, governance of the Corporation's pension plan and risk management.
- The Human Resources, Safety & Environment Committee, on behalf of the full Board, provides guidance to senior management in the development of human resource policies to ensure that BCTC is successful in attracting and retaining the resources needed to execute the Corporation's mandate. The Committee is responsible for monitoring the Corporation's safety and environmental matters, and reviews public consultation strategies for significant transmission infrastructure projects.
- The Corporate Governance Committee provides the Board with advice and recommendations relating to corporate governance in general, including the assessment of and recommendations for ensuring the effectiveness of the Board and its governance processes.

The Board, its Committees, the Board Chair, President and Corporate Secretary each have written terms of reference outlining respective roles and responsibilities. In Fiscal 2007, Board members took part in a rotational reassignment of Committee duties and updated the terms of reference for each committee. The terms of reference, accompanied by Board member and executive biographies, are available on BCTC's website (www.bctc.com).

Governance Framework

BCTC's Board of Directors oversees an internal governance framework, which consists of guiding corporate principles and business policies. In 2005, the BC Board Resourcing and Development Office established *Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations*. These Guidelines set out governance principles and disclosure practices for public sector organizations in BC. In furthering BCTC's commitment to best practices in corporate governance, the Board of Directors has ensured that BCTC's internal governance framework complies with the principles set forth in the Guidelines. In 2006, the British Columbia Office of the Auditor General completed an assessment of Crown agency audit committee governance practices. BCTC's Audit Committee of the Board took part in this assessment and was acknowledged for achieving high standards in governance practices.

BCTC has in place a Code of Ethics for employees and directors, and carries out annual declaration processes to ensure employees and directors are in compliance with the Code. BCTC also sets out governance and ethical expectations for our contractors, consultants and suppliers. Results of the employee and director declaration process and other matters relating to the Code are reported to the Corporate Governance Committee of the Board. A copy of BCTC's Code of Ethics is available on BCTC's website (www.bctc.com).

External and Internal Audit

BCTC's external Auditor and internal Auditor provide objective assurance functions. Over the past year, the external Auditor and internal Auditor executed their annual plans, reporting to the Audit Committee of the Board on a quarterly basis. In keeping with best practices, BCTC's internal Auditor applies a risk-based and disciplined approach to evaluating the organization's internal controls. This approach is intended to safeguard business assets and processes, and does so by applying the Committee of Sponsoring Organizations' (COSO) Internal Control Framework, an internationally-recognized framework for internal controls.

Enterprise Risk Management

Since 2004, BCTC has used an Enterprise Risk Management (ERM) framework to identify, assess, mitigate and monitor risks. BCTC's risk management practices are designed to provide reasonable assurance that the organization's corporate and business objectives will be met. BCTC's enterprise risk management efforts are overseen by a risk management committee composed of five senior executives and by the Audit Committee of the Board. In Fiscal 2007, BCTC embarked on a "grass roots" initiative to re-evaluate our risk profile and further embed ERM practices into our business and culture.

Standards of Conduct

BCTC's Standards of Conduct, approved by the Commission in 2004, require open access transmission service to be provided on a non-discriminatory basis to all transmission customers. To fulfill obligations under the Standards of Conduct, BCTC regularly publishes transmission information through its website (www.bctc.com) and through its Open Access Same-time Information System.

Fiscal 2007 Board Activities

BCTC's Board and Committee meetings are scheduled on a quarterly basis, with special meetings convened as required to address emerging matters. Each quarter, time is reserved for informal strategy discussions and/or educational sessions during which the Board can consider key business or policy developments on either an in-camera basis or with members of executive management present. In Fiscal 2007, the Board held 7 meetings and 14 Committee meetings, including in-camera segments to facilitate dialogue without management present. The Board and executive management team also took part in an annual strategic planning session in October 2006.

Throughout the year, the Board Chair, President and CEO and Board of Directors engaged and informed the Minister of Energy, Mines and Petroleum Resources on key developments. At the start of the fiscal year, the Board approved a series of performance measures and targets for the Corporation and the President and CEO. Led by the Human Resources, Safety and Environment Committee, the Board undertook an evaluation of corporate performance and the President's individual performance at the end of the fiscal year.

The Board is committed to continuous improvement, and annually assesses its own practices and competencies to ensure the Board continues to operate with an appropriate balance of skills and experience. In Fiscal 2007, the Board completed a core competency identification exercise, developed a Director succession framework and completed its third annual evaluation of Board, Committee and individual Director performance. In addition to monitoring corporate developments, receiving reports on key initiatives and approving material transactions and expenditures, the Board and Committees updated their annual work plans to track Shareholder reporting requirements throughout the year. Updates were also made to the Board's reference manual to ensure current information on governance policies and practices is readily available to Directors.

Summary of Director Attendance

Director attendance for Board and Committee meetings convened between 1 April 2006 and 31 March 2007.

Board Member	Board Meetings Attended	Committee Meetings Attended
Bob Reid	7/7	—
Nicole Byres	7/7	4/4
Richard Campbell	6/7	5/5
John Gill	7/7	5/5
Norm Laythorpe	7/7	5/5
Joanne McLeod	5/7	4/5
Margot Northey	7/7	4/4
Bev Park	7/7	4/4
Gerald Wesley	7/7	5/5
Ralph Winter	7/7	4/4

Directors and Officers

Board of Directors

Composition of the Board and its three standing committees

R.T.F. (Bob) Reid
Chair of the Board / Ex officio Member of the Committees, Officer

Nicole Byres
Chair, Corporate Governance Committee

Richard Campbell
Member, Corporate Governance Committee

John Gill
Chair, Audit Committee

Norm Laythorpe
Member, Audit Committee

Joanne McLeod
Member, Audit Committee

Margot Northey
Member, Human Resources, Safety & Environment Committee

Bev Park
Member, Human Resources, Safety & Environment Committee

Gerald Wesley
Member, Corporate Governance Committee

Ralph Winter
Chair, Human Resources, Safety & Environment Committee

Corporate Officers

Jane Peverett
President and Chief Executive Officer

Brian Gabel
Vice President, Corporate Services and Chief Financial Officer

Martin Huang
Vice President, System Operations

John Irving
Vice President and General Counsel

Doug Little
Vice President, Customer and Strategy Development

Bruce Barrett
Vice President, Major Projects

Scott Boogemans
Director, Human Resources

Julius Pataky
Vice President, System Planning and Asset Management

Elizabeth Hong
Corporate Controller

Diana Stephenson
Corporate Secretary

Financial Report

41 Management's Discussion and Analysis

65 Management Report

66 Report of the Auditor General of British Columbia

67 Audited Financial Statements

86 Financial and Operating Statistics

Management's Discussion and Analysis

Management has prepared a discussion and analysis of British Columbia Transmission Corporation's (the Company or BCTC) business operations and significant events that have affected its results of operations and financial position for the year ended March 31, 2007 (F2007) relative to the same period last year (F2006) and to the Service Plan published in January 2006 (F2007 Plan). References to transmission system and assets contained in this discussion and analysis include those systems and assets which the Company plans, operates and manages on behalf of BC Hydro who owns the assets. This management's discussion and analysis should be read in conjunction with the audited financial statements and the accompanying notes. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Management has included forward-looking statements, including statements regarding the business and anticipated financial performance of the Company. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements. This management's discussion and analysis has been prepared based on information as at May 23, 2007.

Business Model

Formed in 2003, the Company is a commercial Crown corporation wholly owned by the Province of British Columbia (the Shareholder) with a mandate to provide open and non-discriminatory access to British Columbia's electric transmission system. The Company is responsible for transmission system operations, planning, asset management and maintenance, including system expansion and asset replacement. The Company was created under the BC *Business Corporations Act* (then called the *Company Act*) on May 2, 2003 with powers and functions as specified in the *Transmission Corporation Act* which came into force in July 2003. Key Agreements outlining respective roles and responsibilities between the Company and BC Hydro were designated by an Order-in-Council in November 2003. The Minister of Energy, Mines and Petroleum Resources is responsible for the Company, which is governed by a Board of Directors appointed by the Shareholder. The transmission system assets continue to be owned and financed by BC Hydro, while the Company owns the control centre assets required for operating and controlling the transmission system.

Under arrangements with the Shareholder, the Minister of Finance is appointed as the Company's Fiscal Agent responsible for all external financing activities including borrowing, debt management and certain banking arrangements. In addition to meeting the financial reporting requirements under the BC *Business Corporations Act*, the Company is also subject to the *Budget Transparency and Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, the *Utilities Commission Act* and the *Freedom of Information and Protection of Privacy Act*.

The Company is regulated by the British Columbia Utilities Commission (the Commission), which administers and operates under the *Utilities Commission Act*, and as part of that regulation, is required to file applications to set the Open Access Transmission Tariff (OATT) rates that are to be charged to customers. These tariff rates are designed to generate sufficient revenue to recover all prudently incurred operating expenses and asset related costs and also earn an allowed return on deemed equity which is determined in accordance with Special Direction No. 9.

Additionally, the Company is required to file annual capital expenditure plans with the Commission for review and approval. These capital plans comprise investments required to maintain and expand BC Hydro's transmission system, as well as investments required to provide the Company with tools and facilities required to conduct its business. Under the Master Agreement between the Company and BC Hydro, BC Hydro will fund the capital expenditures relating to the transmission system if approved by the Commission, or consented to by BC Hydro. The Company manages regulatory recovery risks by seeking public interest approval of its own capital expenditures and for the additions and improvements to the BC Hydro transmission system. For capital expenditure projects greater than $50 million or projects where there is deemed to be a high risk, a Certificate of Public Convenience and Necessity (CPCN) is required from the Commission as part of the approval process.

Special Direction No. 9 allows for the establishment of deferral accounts which permit actual to forecast variances for certain revenue and cost items to be recovered from or refunded to customers in a future time period. These deferral accounts are contemplated in the Key Agreements to mitigate certain financial risks to which the Company is exposed and that it cannot accept due to its capital structure. The deferral accounts were first approved by the Commission in October 2004 and continued by the Commission in its decision concerning the Company's F2007 rate application.

The Company began operations as an independent rate-regulated utility effective April 1, 2005 and the audited financial statements for the year ended March 31, 2007 are comparable to those reported for the same period last year.

Highlights and Significant Transactions

The Company's second year of operations as a rate-regulated transmission utility saw a high level of capital expenditures which included the System Control Modernization Project (SCMP), Vancouver Island Transmission Reinforcement Project (VITR), Greenfield Substation Projects and other customer and load driven projects. The Company had an active regulatory agenda where VITR CPCN, the F2007 Transmission Revenue Requirement and F2007 Capital Plan applications were approved by the Commission. In response to continued growth, headcount was added in F2007.

Regulation

In January 2006, the Company filed an update to the Transmission System Capital Plan F2006 to F2015 previously approved by the Commission in September 2005, requesting certain adjustments to the projects starting in F2006 and F2007. In June 2006, the Commission rendered its decision approving the update with minor adjustments. In December 2006, the Company filed the Transmission System Capital Plan F2008 to F2017 with the Commission seeking approval of the plan and of growth, sustaining and capital projects starting in F2008 and of sustaining capital projects starting in F2009. The decision is pending.

In May 2006, the Company submitted an application to the Commission for the F2007 revenue requirements which formed the basis of the OATT rates. The Transmission Revenue Requirement includes both the Company and BC Hydro costs for providing transmission services. Customers are billed to recover both the Company and BC Hydro's approved revenue requirement as a single combined charge under the Company's OATT tariff. The F2007 revenue requirement was approved in November 2006 through a negotiated settlement process and the resulting permanent OATT rates were effective April 1, 2006.

In July 2006, following an extensive public hearing process, the Company received a CPCN for the VITR project, a $248.8 million project to upgrade the existing 138kV circuit to a 230kV circuit from the Lower Mainland to Vancouver Island to meet load growth.

In February 2007, the Company submitted a compliance filing requesting approval of permanent rates effective April 1, 2007. This compliance filing pertained to changes in the BC Hydro Owner's revenue requirement and return on equity for F2008. Commission approval was received on March 20, 2007.

In March 2007, the Company submitted its financial forecast for F2008. This forecast demonstrates to the Commission and intervenors that a revenue requirement filing for F2008 is not necessary and that existing rates are adequate to cover the Transmission Revenue Requirement. In conjunction with this submission, the Company also filed to change from an Interest During Construction (IDC) accounting and rate making methodology to an Allowance for Funds Used During Construction (AFUDC) accounting and rate making methodology. The change to AFUDC recognizes that the Company uses both debt and equity to fund its capital expenditures and therefore, the portion of equity that is associated with construction work in progress should be reflected in rates when the capital projects are placed in-service. In the absence of such a change, the Company would have had to propose increases in transmission rates beyond currently approved levels. The Commission confirmation of the F2008 forecast and approval of the change to AFUDC accounting and rate making methodology is pending.

Revenue Requirements

The Master Agreement sets out the Company's authority and responsibility for designing, developing and applying to the Commission for approval of the Transmission Revenue Requirement, which includes both the Company and BC Hydro transmission costs, to be recovered through OATT rates. There are three components to the Transmission Revenue Requirement:

1. BC Hydro Owner's Revenue Requirement;
2. BC Hydro's Asset Management and Maintenance Revenue Requirement; and
3. BCTC's Revenue Requirement.

Under the Master Agreement between the Company and BC Hydro, the recovery of the Asset Management and Maintenance Revenue Requirement is assigned by BC Hydro to the Company as payment for the asset management and maintenance services provided by the Company to BC Hydro. For the year ended March 31, 2007, $87.3 million (F2006 - $90.2 million) was assigned by BC Hydro to the Company.

Highlights and Significant Transactions

OATT

The Company is responsible for the administration of the tariff including offering and scheduling of transmission services and billing and collecting OATT revenues. The Company and BC Hydro share the OATT revenue earned from Network and Point-to-Point Services based on their proportionate share of the total revenue requirement to total approved revenue requirement. The percentage split is 11.404% to the account of the Company and 88.596% to the account of BC Hydro. Revenue from ancillary services is earned 100.00% by the Company, as the cost of providing ancillary services is incurred solely by the Company.

The Company bears the financial responsibility for funding any shortfalls or receiving surpluses in the total transmission revenue for each fiscal year. The Commission has approved a Revenue Deferral Account to record the variances in Point-to-Point and Ancillary Service revenues for disposition through future regulatory decisions. Consequently, the Company's revenue deferral account includes a portion pertaining to BC Hydro Owner's revenue requirement for transmission services. During the year ended March 31, 2007, the Company billed $502.6 million in OATT revenues (F2006 – $584.0 million) which is $15.4 million lower than the amount approved by the Commission, resulting in this amount being recorded in the Revenue Deferral Account as at March 31, 2007.

(in millions)	Apportioned to BC Hydro	Apportioned to BCTC	Total
OATT Revenue Earned during F2007	$ 438.0	$ 64.6	$ 502.6
Assignment of Asset Management and Maintenance from BC Hydro to BCTC	(87.3)	87.3	–
	350.7	151.9	502.6
Transmission Revenue Requirement Approved by the BCUC	363.3	154.7	518.0
Revenue Shortfall	(12.6)	(2.8)	(15.4)
BCTC's Responsibility for Revenue Shortfall	12.6	(12.6)	–
F2007 Revenue Deferral	$ –	$ (15.4)	$ (15.4)

The Master Agreement requires and the OATT sets forth the percentage split between the Company and BC Hydro associated with the OATT billed revenue. Under the Master Agreement, BC Hydro is guaranteed to receive the approved BC Hydro Owner's Revenue Requirement. As a result, any excess or shortfall between actual payments to BC Hydro and its share of the approved transmission revenue requirement is settled 60 days following the end of each fiscal year. At March 31, 2007, the Company owes BC Hydro $12.3 million (F2006 – BC Hydro owed the Company $15.3 million) for the insufficient remittances made during the year (Note 9(b) of the Financial Statements).

Overview of F2007 Results

The selected financial and Full Time Equivalents (FTEs) information provided in the table below highlights the changes between F2007 and F2006 actual results and the variances between F2007 Actual and F2007 Plan.

Selected Annual Financial and FTEs Information

($ in millions)	F2007 Actual	F2006 Actual	Variance from F2006 Actual	F2007 Plan	Variance from F2007 Plan
Revenues	$ 189.8	$ 205.3	$ (15.5)	$ 193.0	$ (3.2)
Total Expenses	188.9	183.7	5.2	189.1	(0.2)
Deferral Accounts	1.8	(8.1)	9.9	–	1.8
Net Income	2.7	13.5	(10.8)	3.9	(1.2)
Total Assets	145.6	137.3	8.3	158.8	(13.2)
Total Liabilities	106.6	99.5	7.1	120.4	(13.8)
Shareholder's Equity	39.0	37.8	1.2	38.4	0.6
Debt	37.0	37.2	(0.2)	77.0	(40.0)
Actual Debt to Equity Ratio	44:56	48:52			
Deemed Debt to Equity Ratio	59:41	59:41			
OMA/GWh-km (in cents)	18.7	19.0	(0.3)	18.7	–
Capital Expenditures					
Assets Owned by BCTC Transmission Assets	$ 50.4	$ 21.4	$ 29.0	$ 64.8	$ (14.4)
Owned by BC Hydro	183.8	123.7	60.1	202.5	(18.7)
Total Capital Expenditures	$ 234.2	$ 145.1	$ 89.1	$ 267.3	$ (33.1)
Full Time Equivalents (FTEs)*	360	321	39	349	11

* FTEs are defined as regular employees at March 31.

F2007 Actual vs. F2006 Actual

For F2007, the Company had total revenue of $189.8 million (F2006 - $205.3 million). The decrease of $15.5 million was primarily due to lower tariff revenues resulting from lower rates, partially offset by higher volumes. Asset Management and Maintenance (AMMA) fee also decreased by $2.9 million from the prior year due to improved maintenance practices and maintenance program costs.

Total expenses increased by $5.2 million from $183.7 million in F2006 to $188.9 million in F2007. The increase in expenses was primarily due to increases in operations, maintenance and administration (OMA) expenses, partially offset by lower depreciation.

For F2007, the Company earned $2.7 million (F2006 - $13.5 million) net income after adjustment for deferral accounts. In order to build its equity to a level required to assume the risks inherent in the Company's business model, the Shareholder has approved the Company to retain all earnings until F2009. The $1.2 million increase in equity from $37.8 million at March 31, 2006 to $39.0 million at March 31, 2007 reflected the retention of all earnings for F2007 net of a $1.5 million reduction to retained earnings as a result of an Accounting Order from the Commission to eliminate the potential double recovery of OMA costs that was also funded and capitalized as BC Hydro Transmission capital.

Total assets of $145.6 million (F2006 - $137.3 million) increased by $8.3 million, primarily due to a net increase in fixed assets and establishment of a regulatory asset (ie. Deferral Accounts), partially offset by the reduction in the amount due from BC Hydro. Debt to equity ratio has improved to 44:56 (F2006 – 48:52) based on financial conditions at the end of March 31, 2007. Compared to the deemed capital structure of 59:41, the Company's debt is lower and equity is higher as at March 31, 2007.

The Company invested $50.4 million in capital expenditures during F2007, which is $29.0 million higher than the same period last year. The increase in expenditures was primarily due to the SCMP project partially offset by lower business support systems expenditures. The Company expended $183.8 million on transmission capital projects on behalf of BC Hydro during F2007 (F2006 - $123.7 million). This level of capital expenditure is higher than last year primarily due to increased investments in system reinforcement and expansion to meet load growth.

F2007 Actual vs. F2007 Plan

Compared to the Fiscal 2007 Plan, actual revenues of $189.8 million are $3.2 million below plan primarily due to lower tariff revenues resulting from lower rates offset by higher volumes. For rate regulation purposes, the variance from the Commission approved amount for OATT tariff revenues was recorded in a Revenue Deferral Account and will be recovered from the transmission customers once approval is received from the Commission on the clearing of this deferral account in F2008.

The Company's F2007 Plan does not include an estimate for deferral accounts as revenue is forecast to recover the forecast transmission cost, including an allowed return on deemed equity.

Special Direction No. 9 sets out the mechanism for determining the Company's deemed capital structure for rate-setting purposes. As amended by Order in Council 752, approved and ordered on October 19, 2005, the Company's deemed equity component is set at 40.7% of total forecast average debt and equity, commencing April 1, 2005. The Company is allowed to earn an annual rate of return on its deemed equity equivalent to the pre-tax annual rate of return allowed by the Commission to the most comparable investor-owned energy utility regulated under the *Utilities Commission Act*. BCTC earns a return on a deemed capital structure which is comprised of total debt and equity. The F2007 planned allowed net income of $3.9 million was determined based on earning an estimated allowed rate of return on equity of 12.41%. The F2007 allowed return approved by the Commission was $2.9 million based on an approved rate of return of 13.10% (F2006 -13.51%). Despite a higher allowed rate of return, the approved net income is lower than the planned allowed net income of $3.9 million due to a lower deemed equity component as a result of lower SCMP capital expenditures.

Actual expenses for the year totaled $188.9 million and are $0.2 million lower than F2007 Plan primarily due to lower depreciation partially offset by higher operating costs and higher financing costs attributable to interest on the deferral accounts. The $0.2 million favourable variance is net of a $1.0 million transfer to the cost deferral accounts. The disposition of these deferral amounts will be reviewed by the Commission during F2008.

Total assets are $13.2 million lower at March 31, 2007 compared to F2007 Plan primarily due to lower than anticipated SCMP capital expenditures related to the late start in building construction. However, SCMP is forecast to be on budget and scheduled for completion in October 2008.

Full Time Equivalents (FTEs)

FTEs are defined as the total number of regular employees at the end of the year. There were 360 (F2006 – 321) regular employees at March 31, 2007 compared to a Board approved headcount of 384 positions. In order to backfill vacancies or perform temporary work assignments, the Company had 37 (F2006 – 19) temporary employees. The Company had 24 (F2006 – 31) vacancies at the end of the fiscal year and is actively recruiting to fill these positions.

Over the past three years, the Company adjusted its organizational structure, redeployed existing resources and added headcount to address its strategic objectives and the growing workload associated with OATT tariffs, capital expansion, IPP interconnections, regulatory proceedings and public / stakeholder consultation. In F2007, the Company conducted a critical review of resource capability to ensure it has the capacity to deliver on corporate goals and objectives. A primary driver of increased resource needs is the Company's 10 year capital plan, which anticipates a significantly higher level of investment in the transmission system to meet growing demands and to sustain existing system capacity. The higher level of study requests from Independent Power Producers (IPPs) and generators and increasing regulatory and stakeholder expectations are also straining the capability of existing resources. In March 2007, the Company initiated the repatriation of certain accounting and purchasing functions formerly performed by Accenture Business Services (ABS), resulting in an additional 10 regular employees.

Results of Operations

Results of operations for the years ended March 31, 2007 and March 31, 2006 are summarized below.

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual
Revenues			
Tariff	$ 68.0	$ 79.2	$ (11.2)
Asset Management and Maintenance Fee	87.3	90.2	(2.9)
Service Fees and Other	32.1	34.7	(2.6)
Investment Income	2.4	1.2	1.2
Total Revenue	**189.8**	**205.3**	**(15.5)**
Expenses			
Cost of Market	5.0	4.5	0.5
OMA	168.2	157.2	11.0
Taxes and Grants	0.3	0.3	–
Depreciation	14.2	19.7	(5.5)
Finance Charges	1.2	2.0	(0.8)
Total Expenses	**188.9**	**183.7**	**5.2**
Net Income before Deferral Accounts Transfers	0.9	21.6	(20.7)
Deferral Accounts	1.8	(8.1)	9.9
Net Income	**$ 2.7**	**$ 13.5**	**$ (10.8)**

F2007 Actual vs. F2006 Actual

Net income for the year ended March 31, 2007 is $2.7 million compared to $13.5 million for the same period last year. This decrease is primarily due to lower tariff rates approved by the Commission, partially offset by higher operating costs.

Tariff Revenues

The implementation of the OATT tariff was done in two phases. On April 1, 2005, BC Hydro's Wholesale Transmission Service tariff was rolled over and, following Commission approval of OATT's rate design, the Company implemented its new tariff effective March 1, 2006. F2007 is the first full year that the Company has operated under its new OATT tariff. Transmission services include network services, long-term and short-term point-to-point services (PTP) and ancillary services. Also included in tariff revenues is income from the General Wheeling Agreement with Fortis BC.

The Commission approved the use of the Company's March 1, 2006 rates as interim rates effective April 1, 2006. The company filed its F2006/2007 Revenue Requirement on May 26, 2006 seeking approval of permanent rates effective April 1, 2006 and to further amend the current interim rates to the proposed lower transmission rates. The Company received approval to reduce the current interim rates effective July 1, 2006. On November 9, 2006 the Commission approved the Negotiated Settlement Agreement and the Company's Transmission Revenue Requirement for F2006/2007. The rates filed in compliance with the Negotiated Settlements for the Company and BC Hydro Transmission have been applied retroactively to April 1, 2006.

The following table shows the total tariff revenues billed under the OATT tariff during F2007. The F2007 11.404% and 88.596% (F2006 – 11.40% and 88.60%) split between the Company and BC Hydro respectively for network and point-to-point services is based on the Commission approved revenue requirements. The Company and BC Hydro's respective shares of the OATT revenue are recorded in the individual companies' financial accounts.

($ in millions)	Tariff Revenue Billed under BCTC's Tariff	BC Hydro's Revenue	BCTC's Revenue
Network Integrated Transmission Services	$ 437.8	$ 387.9	$ 49.9
Point-to-Point Services			
Long-term	31.2	27.7	3.5
Short-term	25.3	22.4	2.9
Ancillary Services	8.3	–	8.3
Total OATT Revenues	**$ 502.6**	**$ 438.0**	**$ 64.6**
FortisBC General Wheeling Agreement	3.4	–	3.4
Total Tariff Revenues	**$ 506.0**	**$ 438.0**	**$ 68.0**

The Company's tariff revenues for F2007 were $68.0 million, a decrease of $11.2 million from last year.

Network integrated transmission services represent a fixed monthly fee charged to BC Hydro for the use of the transmission system to serve domestic retail customers including residential, commercial and industrial customers. The F2007 network integrated transmission services charge of $437.8 million (F2006 - $504.0 million) is $66.2 million lower than forecasted and approved in the revenue requirement filing.

Long-term Firm PTP transmission service is sold in yearly service increments. Long-term Firm PTP volume is based on confirmed transmission contracts which contain yearly rollover rights that allow the service to be extended. Long-term contracts that are converted to short-term uses under the Company's business practices are generally treated as short-term transmission for the time that they are converted. Long-term Firm PTP transmission service revenue of $31.2 million (F2006 - $24.6 million) is $6.6 million higher than last year due primarily to the addition of two new long-term contracts. During F2007, the Company sold 5,958,304 MWh (F2006 - 4,189,502 MWh) in long-term PTP services at an average rate of $5.24/MWh (F2006 - $5.88/MWh).

Short-term PTP transmission service is sold in hourly, daily, weekly, and monthly service increments based on market demands. Short-term services may be firm or non firm based on availability and customer requests. Short-term PTP transmission service revenue of $25.3 million (F2006 - $45.4 million) is $20.1 million below last year primarily due to lower rates partially offset by higher volumes. During F2007, BCTC sold 14,086,962 MWh (F2006 - 10,932,543 MWh) in short-term PTP services at an average rate of $1.80/MWh (F2006 - $4.16/MWh). The lower short-term PTP transmission rate is primarily due to a discount pricing practice defined by the OATT Tariff implemented in March 2006.

Ancillary services are needed with PTP transmission service to maintain reliability within and among the Control Areas affected by the transmission service. They include scheduling, system control and dispatch service, reactive supply and voltage control, regulation and frequency response, energy imbalance, operating reserves and loss compensation service. The Company provides scheduling and dispatch services to all transmission customers and other ancillary services to those customers who do not self-supply. During F2007, the Company earned $4.2 million (F2006 - $6.4 million) in scheduling and dispatch and $4.1 million (F2006 - $3.6 million) in other ancillary revenues which represents recovery of ancillary services costs incurred and flowed through to transmission customers.

The Company provides transmission services to FortisBC under the General Wheeling Agreement (GWA) which expires in 2045. This agreement provides FortisBC with the rights to transfer its power, up to nominated amounts, from the Kootenay Interconnection over the BC transmission system to Vernon Terminal, Creston and Princeton. GWA wheeling from South Slocan to the Okanagan Interconnection Point is take-or-pay based on a 5-year rolling nomination. The $3.4 million (F2006 - $3.8 million) wheeling charges to FortisBC for using the transmission system under this agreement are in accordance with Rate Schedule 21.

Asset Management and Maintenance Fee

The F2007 Asset Management and Maintenance fee of $87.3 million (F2006 - $90.2 million) is $2.9 million lower than prior year primarily due to improved maintenance practices that resulted in maintenance program cost savings.

Service Fees and Other Revenues

Pursuant to the establishment of service level agreements with BC Hydro effective April 1, 2005, the Company provides various operations and maintenance services to BC Hydro generation and distribution business units. The Company also earns Telecom revenue from microwave usage by BC Hydro for its internal dialing system. Other services provided to BC Hydro include engineering studies and design work. The Company also earns revenue for services provided to IPPs and other customers for engineering studies to investigate the requirements for interconnecting the independent power generation facilities to the transmission system and to perform customer requested relocation work.

Expanding transmission requirements have increased the Company's activity in its role as transmission provider to Independent Power Producers (IPP) and results in studying more IPP requests for point-to-point transmission service. The number of load interconnection studies for BC Hydro has increased with the growth of the provincial economy. In some cases, these studies trigger additional work as the existing capability of the system is used up and new reinforcements are required or planned reinforcements are advanced.

The services and other revenue of $32.1 million (F2006 - $34.7 million) is $2.6 million lower than the prior year primarily due to lower charges for generation related transmission asset services resulting from improved maintenance processes, reduced maintenance program costs partially offset by higher revenue from engineering studies and higher Substation Distribution Asset (SDA) management fee, which included a $1.4 million recovery of F2006 Substation Distribution maintenance cost that was billed to BC Hydro in F2007.

Investment Income

Investment income for the year ended March 31, 2007 is $2.4 million compared to $1.2 million for the same period last year. The increase in investment income is primarily due to the higher investment balance resulting from the $15.8 million true-up payment from BC Hydro respecting the F2005/2006 OATT Revenue. This true-up payment was made to the Company at the end of May 2006. The OATT true-up represented the return of the excess payments made to BC Hydro during the course of F2006 in respect of their share of OATT revenues and its share of the approved transmission revenue requirement for F2006 as per the Master Agreement.

Cost of Market

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual
Ancillary Services Costs	$ 4.1	$ 3.6	$ 0.5
Congestion Management Costs	0.9	0.9	0.0
Total Cost of Market	**$ 5.0**	**$ 4.5**	**$ 0.5**

Cost of market expenses for the year ended March 31, 2007 totaled $5.0 million compared to $4.5 million for the same period last year.

Cost of market includes ancillary services and congestion management costs. The ancillary services cost relates to the provision of ancillary services under the OATT tariff for those transmission customers that do not self-supply those services as part of their point-to-point service requests. These services include loss compensation services, reactive supply and voltage control, regulation and frequency response, energy imbalance and operating reserves. The ancillary service costs incurred in F2007 totaling $4.1 million (F2006 - $3.6 million) were primarily for loss compensation and reactive supply and voltage control services purchased from BC Hydro which was a flow-through cost to transmission customers and was fully offset by ancillary services revenue.

Congestion management costs include the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation and operating agreements between control areas. These costs are incurred to maximize transmission capacity and provide additional transmission availability for customers. Of the $0.9 million incurred in F2007, $0.5 million (F2006 - $0.7 million) related to an agreement with Boston Bar Limited Partnership to provide transmission locational credits.

Operations, Maintenance and Administration Expenses (OMA)

In F2007, faced with a higher level of business activities, a tight labour market and general cost inflation, OMA cost increased from $157.2 million in F2006 to $168.2 million in F2007. Of the $168.2 million, $3.0 million (F2006 - $1.5 million) represent flow-through expenses related to the SDA Agreement and engineering studies that are fully recovered in Other Service Fees and Revenues. Active redeployment of resources to address business priorities and prudent cost management enabled BCTC to maintain OMA expenditures.

OMA expenses, categorized as Operations, Maintenance and Administration expenses based on major work activities are shown in the table below.

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual
Operations	$ 42.3	$ 38.0	$ 4.3
Maintenance	99.8	94.9	4.9
General and Administration	26.1	24.3	1.8
Total OMA	**$ 168.2**	**$ 157.2**	**$ 11.0**

Operations include the real time operation of the transmission system, system planning and performance analysis, market/tariff operation and administration. Operations expense increased by $4.3 million primarily due to higher activity relating to interconnection studies, wage rate increases, higher Western Electricity Coordinating Council (WECC) fees, organization and business process design relating to the new System Control Centre and planning work relating to the Northwest Transmission Line and Central Vancouver Island projects.

Maintenance relates to the asset management and maintenance of BC Hydro's $2.7 billion transmission system and station assets. These assets comprise over 18,000 circuit kilometers of high voltage transmission lines that range from 60kV to 500kV and 290 substations and 90 microwave stations and microwave repeater sites.

Maintenance includes:

- Definition and implementation of maintenance and sustainment investment programs to optimize transmission system lifecycle costs and asset performance; and
- Execution and management of the maintenance work plans for Stations, Transmission and Vegetation as well as the capital work plan.

The cost increase in F2007 of $4.9 million is primarily due to increases in emergency maintenance costs relating to several wind storms from November 2006 to January 2007, higher security costs as a result of increased substation vandalism, and labour cost increases.

General and Administration includes oversight and strategic management of BCTC business operations as well as enterprise-wide processes and activities provided to business users within the Company and its service providers. The increase of $1.8 million over the prior year is primarily due to higher labour costs for headcount increases and to a province-wide advertising campaign, partially offset by an increase in the overheads capitalized.

Taxes and Grants

By regulation, the Company is subject to section 34 of the *Hydro and Power Authority Act* in respect of property taxes. Accordingly, the Company is assessed school taxes and pays grants in lieu of municipal or similar taxes on its property. The Company paid $0.3 million in school taxes and grants in lieu of taxes for its existing system control centre and reimbursed BC Hydro for taxes and grants in lieu relating to the area control centres under the terms of the lease agreements for each of F2007 and F2006.

Depreciation

Depreciation and amortization expense for the year ended March 31, 2007 is $14.2 million (F2006 - $19.7 million) which is $5.5 million lower than the previous year primarily due to $6.7 million of assets becoming fully depreciated, $0.4 million due to the impact of a depreciation study which lowered depreciation rates, and $0.3 million in accounting adjustments required to align subledger balances to the General Ledger. These decreases were offset by a $1.8 million increase in depreciation due to new asset additions and a $0.1 million increase in the net impact of adjustments to depreciation on control centre assets.

Depreciation Study rate changes as well as accelerated depreciation on control centre assets resulted in a one time adjustment of $0.8 million in September 2006. This amount was offset by $0.7 million over the course of the remainder of the year as these assets stopped depreciating in September.

Deferral Accounts

BCTC maintains various regulated deferral accounts as approved by the Commission. These deferral accounts mitigate the financial risks associated with tariff revenues and certain cost variances from forecast. The deferral accounts accumulate the difference between the Commission approved amounts and the actual tariff revenues, cost of market and certain operating expenses for recovery from or refund to customers in a future time period. In F2007 the net variance from these deferral accounts resulted in the recording of a regulatory deferral asset that increased the net income reported by $1.8 million. This deferral asset will be recovered from customers once approval is received from the Commission in F2008. In contrast, the favourable variances from F2006 approved amounts in tariff revenues and certain costs resulted in the recognition of a regulatory deferral liability which reduced the net income reported for F2006 by $8.1 million. This deferral liability was cleared in March 2007 by issuing a refund to customers.

BCTC currently has 4 deferral accounts:

- Revenue Deferral Account (RDA) approved in Commission Order G-96-04 – This deferral account allows BCTC to accrue annual variances between forecast and actual transmission revenues.

- Emergency Maintenance Deferral Account (EMDA) approved in Commission Order G-96-04 – This deferral account captures variances between forecast and actual non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires, or similar events.

- Cost of Market Deferral Account (COMDA) approved by Commission Order G-96-04 – This deferral account captures all variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include:

  - Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas.

  - Ancillary services expenses BCTC incurs for all generation-based ancillary services that it, in turn, sells to customers on a cost flow-through basis. Ancillary Service expenses have corresponding Ancillary Service revenues captured in the RDA, therefore any over or under expenditures net to zero based on the revenue collected for these services.

- Regulatory Expenditures Deferral Account (REDA), approved by Commission Order G-96-04 – This deferral account permits BCTC to recover or return the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications, and Intervenor costs as approved by the Commission.

The Grid West Expenditures Deferral Account (GWEDA), approved by Commission Order G-60-05, was closed at the end of F2006 following the dissolution of the Grid West Corporation and wind-up of its affairs.

Each deferral account accrues interest monthly on the balance recorded in the deferral account. The interest is based on BCTC's annual weighted average cost of debt, which, for F2007 was 4.22% (F2006 – 4.22%). The balances recorded in each deferral account at March 31, 2007, including interest, are:

($ in millions)	F2007 Actual	Approved	Deferral Amounts
Total Deferral Accounts at March 31, 2006			**$ (23.4)**
OATT Revenue	502.6	518.0	15.4
BCTC's share of approved transmission revenue requirement			2.8
BCH's share of approved transmission revenue requirement			12.6
Emergency Maintenance Expenditures	2.8	2.0	0.8
Cost of Market	4.9	6.8	(1.9)
Regulatory Cost	3.1	3.0	0.1
Subtotal Deferral Accounts before Refunds and Interest			14.4
Refunded			24.3
Accrued Interest			(0.5)
Total Deferral Accounts at March 31, 2007			**$ 14.8**

BCTC's deferral accounts are subject to review and approval by the Commission before the account balances can be charged to customers.

F2007 Actual vs. F2007 Plan

Under the *Budget Transparency and Accountability Act* (BTAA), Crown agencies are required to include in their annual report a comparison of the actual performance for the fiscal year then ended against the planned performance submitted in the annual service plan. The F2007 Plan shown below is the financial plan submitted by the Company in its January 2006 Service Plan. A copy of this Service Plan is available on the Company's website at www.bctc.com.

($ in millions)	F2007 Actual	F2007 Plan	Variance from Plan
Revenues			
Tariff	$ 68.0	$ 77.2	$ (9.2)
Asset Management and Maintenance Fee	87.3	85.2	2.1
Service Fees and Other	32.1	30.1	2.0
Investment Income	2.4	0.5	1.9
Total Revenue	**189.8**	**193.0**	**(3.2)**
Expenses			
Cost of Market	5.0	4.6	0.4
OMA	168.2	167.2	1.0
Taxes and Grants	0.3	0.3	–
Depreciation	14.2	16.4	(2.2)
Finance Charges	1.2	0.6	0.6
Total Expenses	188.9	189.1	(0.2)
Net Income before Deferral Accounts Transfers	0.9	3.9	(3.0)
Deferral Accounts	1.8	–	1.8
Net Income	**$ 2.7**	**$ 3.9**	**$ (1.2)**

Tariff Revenues

Tariff revenue of $68.0 million is the Company's share of the amount collected for network services, point-to-point and ancillary services revenues. Network integrated transmission services was $6.5 million below plan due to the lower rates approved by the Commission reflecting forecast transmission cost lower than the level reflected in the plan. Point-to-point transmission services revenue was $2.7 million below plan due to lower rates offset by higher volumes.

Asset Management and Maintenance Fee

The F2007 Asset Management and Maintenance fee is $2.1 million higher than plan primarily due to the finalization of maintenance workplans and cost allocation refinements between the approved rate for transmission asset management and maintenance services and the forecast rate reflected in the plan.

Service Fees and Other Revenues

These services are primarily provided to BC Hydro and include the management of substation distribution assets, generation related transmission assets, and services for distribution operations and generation dispatch. Service fees and other revenues of $32.1 million are $2.0 million above plan. This favourable variance to plan is primarily due to higher than anticipated engineering studies, design work and substation distribution asset management fees partially offset by lower generation related transmission asset management fees resulting from the difference between the approved rate and the forecast rate reflected in the plan, and to lower distribution operations revenue.

Investment Income

Investment income of $2.4 million is $1.9 million above plan primarily due to the higher investment balance resulting from the $15.8 million true-up with BC Hydro on the F2006 OATT Revenue. This true-up payment was made to the Company at the end of May 2006.

Cost of Market

Cost of market is $0.4 million above plan primarily due to higher demand resulting in higher flow-through ancillary service costs.

Operations, Maintenance and Administration Expenses (OMA)

OMA expenses, excluding billed expenses totaling $3.0 million, are $165.2 million or $2.0 million below plan prior to the $0.9 million recoverable adjustment for deferral accounts, primarily due to lower maintenance costs, business expenses and an increase in the capital overhead allocation. The plan did not include billed expenses.

Depreciation

Depreciation expense is $14.2 million or $2.2 million below plan primarily due to timing of asset additions.

Finance Charges

Finance charges are $1.2 million or $0.6 million higher than plan due to higher than anticipated financing charges on the deferral accounts due to delay in timing of customer refunds.

Deferral Accounts

Deferral accounts were not included in the F2007 as the plan was based on the forecast revenue and cost used for the determination of F2007 rates.

Summary of Financial Position

The following table provides summary information on the Company's financial position as at March 31, 2007 and March 31, 2006.

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual
Current Assets	$ 42.5	$ 70.1	$ (27.6)
Property, Plant and Equipment	100.1	63.6	36.5
Other Assets	3.0	3.6	(0.6)
Total Assets	**$ 145.6**	**$ 137.3**	**$ 8.3**
Current Liabilities	$ 47.2	$ 41.7	$ 5.5
Long-term Debt including Capital Lease	36.9	37.1	(0.2)
Other Long-term Liabilities	22.5	20.7	1.8
Total Liabilities	**106.6**	**99.5**	**7.1**
Shareholder's Equity	39.0	37.8	1.2
Total Liabilities and Shareholder's Equity	**$ 145.6**	**$ 137.3**	**$ 8.3**

Current Assets

Current assets are $27.6 million lower than prior year primarily due to the refund of deferral account balances in February 2007 and a reduction in the amount due from BC Hydro, partially offset by higher accounts receivable.

Property, Plant and Equipment

Property, plant and equipment increased by $36.5 million between March 31, 2007 and March 31, 2006 due to capital expenditures of $50.4 million primarily for the SCMP project partially offset by depreciation expense for the year.

Other Assets

Other assets decreased by $0.6 million from prior year mainly due to amortization of long term prepaid amounts.

Current Liabilities

Current liabilities increased by $5.5 million year-over-year primarily due to $16.5 million in amounts due to BC Hydro largely related to excess tariff billings to be settled after year-end, $12.4 million increase in trade payables, $0.2 million in deferred revenue relating to customer deposits for studies and other work, partially offset by a $23.4 million reduction in the deferral accounts and a $0.2 million amortization in deferred leasehold inducements.

Long-term Debt

Debt is comprised of the $30.1 million debentures and $6.8 million capital leases relating to the control centres for a total of $36.9 million at March 31, 2007. The $0.2 million reduction from the March 31, 2006 balance relates to the principal repayment on the capital lease and amortization of the bond premium.

Other Long-term Liabilities

The year-over-year increase of $1.8 million in other long-term liabilities is attributable to higher pension and post-retirement costs as well as employee time bank liabilities. Accrued pension and post-retirement liabilities increased $1.2 million at March 31, 2007 primarily due to the increased number of employees and higher salary costs. Accrued time bank liabilities at March 31, 2007 were $0.4 million higher than a year ago primarily due to the liabilities being accrued at the current rate of pay. Other long-term liabilities increased by $0.2 million.

Shareholder's Equity

The increase in Shareholder's Equity of $1.2 million is due to net income of $2.7 million earned in F2007 offset by a prior period adjustment of $1.5 million. This prior period adjustment is a Commission approved Accounting Order, applied for by BCTC, to eliminate the potential double recovery of OMA costs that was also funded and capitalized as BC Hydro Transmission capital. The shareholder has approved BCTC retaining all earnings until F2009.

Liquidity and Capital Resources

Liquidity

The following table provides a summary of cash flow.

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual
Cash and Cash Equivalents, Beginning of Year	$ 36.0	$ 6.6	$ 29.4
Cash Provided by (used in):			
Operating Activities	28.5	46.2	(17.7)
Investing Activities	(51.1)	(18.3)	(32.8)
Financing Activities	(0.1)	1.5	(1.6)
Increase (Decrease) in Cash	(22.7)	29.4	(52.1)
Cash and Cash Equivalents, End of Year	**$ 13.3**	**$ 36.0**	**$ (22.7)**

Operating Activities

Cash flow from operations, after adjustment for working capital changes, totalled $28.5 million, a decrease of $17.7 million from last year. This decrease is primarily due to lower net income. Although the total non-cash working capital change was not material year over year, there were significant changes within certain working capital accounts, primarily the Due to/from BC Hydro account and Deferral accounts.

Investing Activities

Cash used in investing activities increased by $32.8 million from last year primarily due to higher capital expenditures and a reduction in short term investments. Capital expenditures were $50.6 million in F2007 compared to $20.8 million in F2006 as BCTC continues to invest in new system control centre assets, which are scheduled for completion in October 2008.

Financing Activities

Cash used by financing activities in F2007 was $0.1 million compared to cash provided by financing activities of $1.5 million last year. There was no debt financing requirement during the year as BCTC had sufficient cash on hand to fund operations and capital investments.

Capital Resources

Short term liquidity is provided through surplus cash invested in money market and other short term investments and funds from operations during the year, supplemented with short-term commercial paper borrowings from the Province of British Columbia as required. The Province limits short-term commercial paper borrowing to $25.0 million. Additionally BCTC has arranged a $5.0 million demand revolving credit facility for general corporate purposes with a chartered bank. The facility is available by way of Canadian or US dollar overdrafts and is priced at the prime rate for Canadian dollar overdrafts and the US base rate, respectively.

At March 31, 2007, BCTC has $13.3 million in cash and cash equivalents. BCTC has no short-term borrowing and the bank credit facility was unused as at March 31, 2007.

Long-term financing is provided by the Province of British Columbia through an off-lending arrangement and the issuance of matching debentures to the Province. In May 2004 BCTC issued a $30.0 million debenture, at a coupon rate of 4.30%, maturing in December 2008. No long-term debt was issued during F2007.

Transmission Capital Expenditures

Capital expenditures for control centres, information technology and office facilities are funded and owned by BCTC whereas those relating to the transmission system are funded and owned by BC Hydro. The transmission capital expenditures are accounted for and reported in BC Hydro's financial accounts as the owner of transmission assets and are not reflected in BCTC's financial statements.

Consistent with its mandate and under the Master Agreement with BC Hydro, BCTC is responsible for planning, constructing and obtaining regulatory approvals for the sustainment and expansion of BC Hydro's transmission system, and for entering into commitments and incurring expenditures on behalf of BC Hydro. BC Hydro funds all transmission capital expenditures approved by the Commission or consented to by BC Hydro prior to Commission approval. In the event that the Commission determines that any capital expenditures in respect of the transmission system were imprudently incurred, BCTC will pay BC Hydro the amount of such expenditure not recoverable by BC Hydro through the transmission rates. To date, no expenditures have been found imprudent by the Commission and no payments have been made to BC Hydro.

In order to ensure capital projects undertaken by BCTC are found to be prudent for recovery through future rates, BCTC files transmission system capital plans with the Commission annually. BCTC filed its first Transmission System Capital Plan under section 45(6) and (6.1) of the *Utilities Commission Act* in May 2004. The Commission approved this plan in November 2004. In March 2005, BCTC filed its second Transmission System Capital Plan, seeking approval for projects commencing in F2006 and F2007 for the public interest. In September 2005, the Commission approved this capital plan with some modifications and provided further direction. In January 2006, BCTC submitted a Transmission Capital Plan Update Filing seeking approval for additional projects, not previously approved by the Commission, that had expenditures commencing in F2006 and F2007. In June 2006, the Commission approved the Update Filing with minor modifications. In December 2006, BCTC filed the latest Transmission Capital Plan seeking approval for projects commencing in F2008 and F2009. The decision on the Transmission Capital Plan Filing is currently pending.

Transmission capital expenditures for F2007 are summarized in the table below.

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual	F2007 Plan	Variance from Plan
Assets Owned by BCTC					
Control Centre Technologies	$ 46.4	$ 12.2	$ 34.2	$ 60.8	$ (14.4)
Information Technologies	3.8	8.0	(4.2)	3.7	0.1
Facilities	0.2	1.2	(1.0)	0.3	(0.1)
Total BCTC Capital Expenditures	**$ 50.4**	**$ 21.4**	**$ 29.0**	**$ 64.8**	**$ (14.4)**
Transmission Assets Owned by BC Hydro					
Sustaining Capital	$ 89.0	$ 87.2	$ 1.8	$ 83.2	$ 5.8
Growth Capital	103.7	41.4	62.3	122.3	(18.6)
Less: Contributions in Aid of Construction	(8.9)	(4.9)	(4.0)	(3.0)	(5.9)
Transmission Capital Investments on behalf of BC Hydro	**$ 183.8**	**$ 123.7**	**$ 60.1**	**$ 202.5**	**$ (18.7)**

Assets Owned by BCTC

Capital expenditures totalled $50.4 million in F2007, a $29.0 million increase over the last year. The increase was related to the $45.1 million expenditures for the development of a new system control centre (SCMP project), partially offset by lower expenditures on business systems, information technology and facilities.

The SCMP project is a $133 million project approved by the Commission in February 2005 to replace BCTC's System Control Centre and four Area Control Centres with a modern Energy Management System (EMS) located at a new control centre and backup site. In F2006, property was purchased in Langley for the new main control centre and the existing control centre property in Vernon was selected for the new backup control centre. In F2007, BCTC expended $45.1 million primarily on the construction of the control centre buildings and development of the EMS.

Compared to F2007 plan of $64.8 million, BCTC's capital expenditures were $14.4 million below plan primarily due to late start in building construction, but overall, SCMP is forecast to be on budget and schedule for completion by October 2008.

Assets Owned by BC Hydro

There are two main drivers for capital investment in the transmission assets owned by BC Hydro: sustaining performance capability and growth to meet load and customer interconnection requests.

Sustaining capital expenditures are designed to maintain an appropriate level of asset health and system performance. These investments typically involve refurbishment or replacement of existing equipment, with the objective of extending life or preserving functionality. In addition, some sustaining investments are made to reduce risks, such as those associated with safety and environmental issues, and to meet industry standards in programs such as seismic upgrades, spill containment, and fire risk reduction. During F2007, $89.0 million (F2006 - $87.2 million) was invested in station and protection and control equipment, transmission lines and cables and telecommunication equipment.

Growth capital includes investments required to extend and enhance the system to meet growth in load and use of the system, and to accommodate transmission customer and IPP requests. During F2007, BCTC invested $103.7 million (F2006 - $41.4 million) in growth capital. Investments in growth capital are forecast to be significantly higher in F2008 and will remain high over the next few years to address the rapid load and generation growth in the province, including a large number of possible IPP additions as a result of BC Hydro's recent Calls for Tender.

For certain customer-requested projects, including transmission customer load connections and IPP connections, the customers are required to contribute toward the project cost based on established tariff. For third party projects to relocate transmission lines, BCTC will be reimbursed for costs. These customer payments are categorized as contributions in aid of construction. During F2007, BCTC received $8.9 million (F2006 - $4.9 million) in contributions in aid of construction.

The major growth capital projects are as follows:

Vancouver Island Transmission Reinforcement Project (VITR)

The Commission approved the $248.8 million VITR project to upgrade the existing 138kV cable to a 230kV submarine cable circuit from the Lower Mainland to Vancouver Island with an in-service date of October 2008. This new circuit will allow peak demand to be met on Vancouver Island, accommodate load growth and de-rating of existing high voltage direct current transmission circuits which are reaching end of life. The Commission granted BCTC a Certificate of Public Convenience and Necessity in July 2006. BCTC received a BC Environmental Assessment Certificate in February 2007 approving construction of the VITR project. Total F2007 expenditures were $19.7 million and the total project cost to March 31, 2007 was $28.7 million.

New Substation Projects

Five new substations are being constructed at a total cost of $124.8 million to meet customer load growth. F2007 spending totalled $16.2 million for Fort St. John, $15.0 million for Langley, $7.8 million for Maple Ridge, $8.1 million for Whistler and $9.4 million for Mission/Matsqui.

Four of the five new substations, constructed with a total cost in excess of $80.0 million, have been placed into service, improving the reliability of electricity service in Fort St. John, Maple Ridge, Whistler and Langley. The remaining Mission/Matsqui substation is targeted for completion in October 2007.

Interior to Lower Mainland Reinforcement Project

The Interior to Lower Mainland Reinforcement Project is a major project to reinforce the Interior to Lower Mainland bulk transmission system with an in-service date of October 2014. The reinforcement of the bulk transmission system will meet load growth in the Lower Mainland, ensure existing transmission commitments are met and transport increased generation resulting from projects planned in the South Interior. A new series-compensated 250 km, 500 kV transmission line (5L83) between Nicola substation (near Merritt) and Meridian substation (in Coquitlam) is one of the options being considered. A second option, Upgrade Existing Circuits, is a package of 16 upgrade projects for existing lines and station facilities.

The project is currently in the definition phase and a CPCN application is expected to be filed during F2008. Total F2007 expenditures were $4.1 million and total project cost to March 31, 2007 was $5.3 million.

Compared to the F2007 Plan of $202.5 million, actual transmission capital expenditures were $18.7 million lower primarily due to the deferral of the Forest Kerr IPP and cash flow shifts to F2008 for some other Growth projects. These were partially offset by unplanned carryover projects in Sustain projects.

Related Party Transactions

The Company and BC Hydro have established commercial relationships pursuant to both OATT tariff and service level agreements. As both companies are owned by the same shareholder, the Province of British Columbia, the transactions between the Company and BC Hydro are considered to be related party transactions for financial statement disclosure purposes.

The following are transactions with BC Hydro during F2007:

($ in millions)	F2007 Actual	F2006 Actual	Variance from Actual
Services Provided by BCTC to BC Hydro	$ 185.0	$ 200.4	$ (15.4)
Services Provided by BC Hydro to BCTC	(80.6)	(77.3)	(3.3)
Net Service Provided to BC Hydro	**$ 104.4**	**$ 123.1**	**$ (18.7)**

Services provided by the Company to BC Hydro include both tariff and non-tariff services. The services provided to BC Hydro under OATT Services are based on the same terms and conditions applied to all transmission customers. Services provided by BC Hydro to the Company are related to engineering, maintenance and construction services based on service level agreements. These services are provided at cost. The contractual obligations and financial commitments are discussed under the Future Financial Commitments section.

BCTC uses BC Hydro engineering and field services in the execution of transmission capital projects that are not reflected in the table above.

Future Financial Commitments

The Company entered into contracts and commitments as part of its ongoing business operations and in relation to its capital projects. The following presents a summary of debt repayment and other major contractual obligations as at March 31, 2007.

($ in millions)	F2008	F2009	F2010	F2011	F2012 & beyond	Total
Reflected on the Balance Sheet:						
Debenture	$ –	$ 30.0	$ –	$ –	$ –	$ 30.0
Capital Leases	0.6	0.6	0.6	0.6	0.6	3.0
	$ 0.6	**$ 30.6**	**$ 0.6**	**$ 0.6**	**$ 0.6**	**$ 33.0**
Not Reflected on the Balance Sheet:						
Service Agreements	$ 48.2	$ 48.2	$ 48.2	$ 39.6	$ 61.9	$ 246.1
Major Capital Contracts	43.8	–	–	–	–	43.8
Operating Leases	2.6	2.7	2.6	2.7	7.3	17.9
	$ 94.6	**$ 50.9**	**$ 50.8**	**$ 42.3**	**$ 69.2**	**$ 307.8**

Service Agreements

The service agreements relate to the provision of engineering, construction, maintenance and inventory management services from BC Hydro service business units and IT services from Accenture Business Services (ABS). These agreements contain terms and conditions that are consistent with the Key Agreements and define the contractual obligations of each party, the allocation of risk between the parties and the recognition that the parties are now two independent entities.

The most significant service agreement relates to the provision of maintenance services. Under this agreement, the Company contracts a fixed volume commitment per year for a period of six years commencing April 1, 2004 and ending March 31, 2010. Following the initial six year period, either the Company or BC Hydro may elect to reduce the committed volume by up to 20% per annum.

BC Hydro receives outsourcing services from ABS commencing April 1, 2003. The Company receives these services under BC Hydro's agreement with ABS. The Company engaged in negotiations with BC Hydro and ABS to establish a separate agreement for services as contemplated under the Key Agreements but a separate agreement was not finalized. As the company continues to share information technology (IT) infrastructure with BC Hydro, the Company will continue to take IT services under the agreement between BC Hydro and ABS until its expiry in March 2013.

During F2007, accounting services and purchasing were transitioned back to the Company from ABS.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs, and related disclosures of commitments and contingencies. The Company has based its estimates and judgments on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments.

There were no accounting policy changes during F2007.

Emerging Accounting Pronouncements

Transition to International Financial Reporting Standards (IFRS)

On January 10, 2006, the Canadian Accounting Standards Board (AcSB) approved a new strategic plan to adopt globally accepted accounting standards by converging Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) over a five-year transition period. The AcSB's planned date for IFRS implementation is 2011. Management will review the AcSB's implementation plan and begin transition planning in F2008.

Financial Instruments

The CICA issued new accounting standards in 2005 for Handbook Section 3855 *Financial Instruments Recognition and Measurement*, Section 3865 *Hedges*, and Section 1530 *Comprehensive Income*. These standards become effective for the Company in its fiscal year commencing April 1, 2007 (F2008). Section 3855 prescribes when a financial asset or liability should to be recognized on the balance sheet and whether fair value or cost-based measures should be used to value the asset or liability. Section 3865 establishes guidance on how hedge accounting is applied and reported. Section 1530 introduces a new requirement for the reporting of comprehensive income. Comprehensive income is defined as the change in shareholders' equity in a period, excluding those changes that occur through investments from owners or distributions to owners. Given the nature of the Company's financial instruments and borrowing programs, management does not believe that the application of these new standards will have a material impact on the Company's financial reporting.

Accounting for Rate-Regulated Operations

The AcSB issued an Exposure Draft, "Rate-Regulated Operations" in March 2007 which proposes to remove explicit guidance for rate-regulated operations from the CICA Handbook. The Handbook sections that will be impacted are: Section 1100 *Generally Accepted Accounting Principles*, Section 1600 *Consolidated Financial Statements*, Section 3061 *Property, Plant and Equipment*, Section 3465 *Income Taxes*, and Section 3475 *Disposal of Long-Lived Assets and Discontinued Operations*. The Exposure Draft proposes that AcG-19 be retained after the amendments to the Handbook. The use of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71) would be applied for qualifying enterprises meeting the specific criteria found in the accounting standard. The proposals are effective for the Company in F2010. Two of the Company's accounting practices are governed by rate regulation. The two areas are capital assets and deferral accounts. Management does not believe the application of the new standard will have a material impact on the Company's financial reporting.

Accounting for Pension and Other Post-Retirement Costs

In March 2007, the AcSB issued an Exposure Draft, "Employee Future Benefits" (Amendments to Section 3461) proposing that the funded status of the organization's post-retirement benefit plans be included in the balance sheet. The current accounting only requires disclosure of the funded status in the notes to the financial statements. In addition to accounting and disclosure changes, the impact of the proposed changes is expected to affect the company's financial ratios. The AcSB expects to issue its amendments to Section 3461 in the second half of 2007. Management is currently assessing the impact of these potential changes which are expected to become effective for the Company in F2008.

Risk Management

The Company is exposed to a variety of business and operating risks. Since F2005, the Company has used an Enterprise Risk Management (ERM) framework to identify, assess, mitigate and monitor risks to provide reasonable assurance that its corporate and business objectives will be met. The Company's enterprise risk management efforts are overseen by a Risk Management Committee composed of five members of the Executive Leadership Team and by the Audit Committee of the Board of Directors.

In F2007, the Company launched an initiative to re-evaluate its risk profile, risk tolerances and further embed ERM into its business and culture. For this initiative, the Company embarked on a "grass roots" approach towards risk management. This included the engagement of employees in the identification and quantification of risks, the identification of mitigation strategies and all phases of the existing ERM framework.

The Company employs various risk management strategies to mitigate its risk exposure. For certain types of risks, the Company uses insurance as an effective mechanism for risk transfer. The Company has in place a comprehensive insurance program with limits that are within the acceptable range of industry practices.

Risk of interruption to mission critical business processes are managed, in part, through an enterprise business continuity management program. The program encompasses emergency response planning, information system disaster recovery planning and other contingency planning initiatives, including grid outage, facility disruptions and health emergencies. The program ensures that our personnel, assets, information systems, and operations are resilient to potential business disruptive events. Regular program reporting is provided to the Risk Management Committee and the Audit Committee of the Board of Directors.

Following are some of the general types of risks that the Company faces:

Labour Risk

Forty percent of the Company's employees are represented by either the International Brotherhood of Electrical Workers (IBEW) or the Canadian Office and Professional Employees Union (COPE). In the event of a labour dispute, essential services are protected by legislation but the Company still could face some degree of operational risk related to providing service to customers. The COPE Collective Agreement (59 employees) expires in March 2010. The IBEW Collective Agreement (97 employees) expired in March 2007. A new tentative IBEW Collective Agreement was reached in March 2007 but subsequently, the agreement was not ratified by the union. The Company continues to negotiate with the union.

The Company relies on a small, highly skilled workforce within an increasingly competitive labour market. The average age of employees is 46 years. Voluntary attrition, inclusive of retirement, was 8.50% in F2006/2007 and is expected to remain stable at the current level for F2008. In order to manage this risk, the Company has increased the emphasis on succession and workforce planning, recruitment strategies and active management of other key attraction and retention factors. In addition, staffing levels have increased due to workload considerations, including increased knowledge transfer requirements and training considerations.

Labour risk did not have a significant impact on BCTC's financial performance in F2007.

Regulatory Risk

The Master Agreement signed between the Company and BC Hydro requires BC Hydro to fund those capital projects approved by the Commission. The cost of any capital project constructed by the Company and funded by BC Hydro for which approval of the Commission is denied will not be recoverable through the Company's rates and must be repaid to BC Hydro. The Company manages this risk through prudent planning, seeking approvals as early as they can be obtained and by minimizing any capital activity in advance of the necessary approvals. In F2006/2007, the Commission approved completed project costs to be included in rates and no cost disallowance was made.

As part of the CPCN approval for the VITR project, an incentive and penalty mechanism for managing the VITR project was established by the Commission. The cost of the project approved by the Commission is $248.8 million. Under the incentive and penalty mechanism, if the project cost exceeds $259.0 million, the Company would incur a penalty of 25% of the Company's forecasted approved return on deemed equity for F2009, which is approximately $1.8 million. Conversely, if project cost is below $241.5 million, the Company would receive an incentive

payment of $1.8 million. The cost of the VTTR project is currently estimated to be at the upper end of the incentive and penalty mechanism range and therefore, an incentive payment on this project is not likely.

The Company has received approval from the Commission for certain deferral accounts in which to record the differences between forecast and actual revenues or costs. The Company is subject to the same deferral account clearance risks as other regulated companies and manages this risk by ensuring deferred costs and revenues are prudent and by demonstrating prudent action to the Commission.

Project and Program Risk

The Company mitigates program execution risks through the application of policies, processes and standards. Each capital or maintenance project is evaluated for regulatory, cost, schedule, scope, performance, utilization, functionality, environmental and safety risks. As the project moves through the various life cycle phases (Study, Definition, Execution and Operation), these risks are managed using well established industry practices. For execution phase risks, the risk management plan is documented in the project plan. Monitoring of identified and emerging risks is undertaken throughout the execution phase. Based on project and program performance during F2006/2007, no major risks materialized that negatively impacted BCTC's financial performance.

Operational Risk

The Company operates, plans, and manages BC Hydro's transmission system assets and exercises exclusive authority for electric transmission reliability in British Columbia. In the execution of this mandate, the Company manages risks that could potentially impact the reliability, capacity, sustainment, safety or environmental performance of the transmission system. Monitoring asset health and performance allows risk reduction programs to be initiated to mitigate risk events. The Company actively participates in the Western Electricity Coordinating Council (WECC) and operates and plans the system in compliance with WECC and North American Electric Reliability Council (NERC) guidelines. The Company also actively co-ordinates regional transmission planning with neighbouring utilities. A comprehensive system of operating policy and local and system operating orders safeguard against worker and public endangerment, equipment damage, loss of reliability and loss of public support. In F2007, the overall reliability of BC's transmission system was significantly impacted by four major storms. This resulted in a SAIDI of 4.23 hours compared to a target of 2.09 hours.

Environmental, Health and Safety Risk

These risks are managed by use of International Organization of Standards (ISO) consistent environmental and safety management systems. The Company has an annual audit program that reviews the various parts of these management systems with respect to the ISO Standards, organization commitments and regulatory requirements. The structure and timing of these audits are consistent with the ISO Standards. All lines of business are annually reviewed for policies, standards, and compliance with government regulations and industry standards. Where risk mitigation is required, appropriate management and operational controls are implemented.

In day to day practice, the Company uses the management systems it has developed to identify, assess, and control environmental, health, safety and security risks. The Human Resources Safety and Environment Committee of the Board of Directors has oversight responsibility for matters relating to the environment, health and safety.

Security Risk

Security risks are managed through an enterprise security management program that encompasses physical, cyber and personnel security. The security program ensures that BCTC's personnel, assets, information systems, and operations are cost-effectively protected from security threats and resilient to potential business disruptive events commensurate with risk exposures. Security reporting is provided to the Risk Management Committee and the Audit Committee of the Board of Directors.

In F2007, due to an escalation in metal prices, BCTC experienced several acts of break-ins and vandalism at its substation sites. These security break-ins resulted in four environmental and two safety related incidents.

Credit Risk

Credit risk is the risk of loss in the event that a counterparty fails to fulfill its payment obligations. A counterparty is typically a customer, under the OATT tariff.

The Company has a low risk tolerance for credit risk and has established stringent credit policies and procedures for the day to day management of credit risk exposure. Transmission services are provided only to those customers whose debt, as determined by debt rating agencies, meets the Company's creditworthiness criteria or upon receipt of acceptable security. The management of credit risk is centralized under the Chief Financial Officer from a strategic and operational perspective. Credit risk is measured on an ongoing basis and a monthly credit review and exposure report is provided to management for review. In F2007, the Company did not experience any credit loss from customer accounts.

Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign exchange rates and commodity prices.

The Company is exposed to interest rate risk which could increase financing costs, and affect the cost of its pension and other employee benefit plans. As at March 31, 2007, the Company currently has a low interest rate risk as it has a fixed coupon rate on its $30.0 million debenture, which matures December 2008. The interest rate risk on the cost of the Company's pension and other employee benefit plans is more significant due to sensitivity of the discount rate used in valuing future pension plan liabilities. The discount rate is based on yields at the financial statement date of high quality corporate bonds whose term matches the timing and amount of the expected benefit payments under the plans. The discount rate was determined as at the date of the latest actuarial valuation, which was December 31, 2005.

Foreign currency risk is currently insignificant as most of its exposure pertains to an immaterial amount of trade receivables and payables. The Company does not hold any commodities and therefore, has no commodity risk.

F2008 Outlook

The outlook for F2008 will see the Company continuing to make significant progress toward meeting its corporate strategies and objectives outlined in this annual report and the Service Plan. The impact of the new Energy Plan and recent regulatory developments will be assessed and an action plan will be developed. In the event that the Energy Plan implementation requires resources over and above the level currently forecast, the Company would need to seek additional relief from the Commission.

On March 21, 2007, the Company filed an Application for an Allowance for Funds Used During Construction (AFUDC) accounting and ratemaking treatment with the Commission. This application proposes to change the Company's current use of Interest During Construction (IDC) methodology to the AFUDC method of accounting and rate making effective April 1, 2007. This change would result in any rate of return on equity on construction work in progress balances to be a capitalized non-cash return that does not affect current period rates and would still allow the Company to comply with Special Direction No. 9. This would also bring the Company's treatment of financing costs associated with capital projects in line with investor-owned utilities in BC.

Planning and executing the transmission capital plan prudently and effectively is a priority for the Company. There are a number of major capital projects underway and capital expenditures for F2008, including transmission projects on behalf of BC Hydro, are forecast at $204.7 million, an increase of $2.2 million from F2007 level. The Company is awaiting a decision on its Capital Plan filing to the Commission seeking approval of new transmission capital projects commencing in F2008 and F2009.

In December 2006, as directed by the Commission, the Company filed a Rate Design Report, "Review of Rate Design Alternatives" which explores alternative cost-based rate designs that promote more efficient use of and competitive access to BC Hydro's transmission system. The report deals with three primary areas of rate design: short term rates, long-term rates, and non-wires solutions. The Commission has accepted the Company's process to consult on the recommendations of the Report in F2008.

Number of Employees

At March 31, 2007, the Company had 360 regular employees (2006 – 321) and 37 temporary employees (2006 – 19).

Management Report

The financial statements of British Columbia Transmission Corporation (BCTC) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 23, 2007. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safe-guarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee.

The financial statements as at March 31, 2007, and for the year then ended have been examined by an independent external auditor. The external auditor's responsibility is to express his opinion on whether the financial statements, in all material respects, fairly present BCTC's financial position, results of operations, retained earnings and cash flows in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, comprised of directors who are not employees, meets regularly with the external auditor, the internal auditor and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Audit Committee, with and without the presence of management.

Jane Peverett
President and CEO

Brian Gabel
Vice President, Corporate Services and CFO

Vancouver, Canada
May 23, 2007

Report of the Auditor General of British Columbia

To the Members of the Board of the British Columbia Transmission Corporation, and

To the Minister of Energy, Mines and Petroleum Resources, Province of British Columbia:

I have audited the balance sheet of *British Columbia Transmission Corporation* as at March 31, 2007 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *British Columbia Transmission Corporation* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 23, 2007

Errol S. Price, CA
Deputy Auditor General

Statement of Operations

For the years ended March 31 (in thousands)	2007	2006
Revenue		
Tariff (Note 9)	$ 68,001	$ 79,194
Asset management and maintenance (Note 9)	87,300	90,200
Service fees and other (Note 9)	32,148	34,738
Investment Income	2,375	1,214
	189,824	205,346
Expenses		
Cost of market (Note 15)	4,965	4,539
Operations, maintenance and administration (Note 9)	168,219	157,280
Taxes and grants	304	265
Depreciation and amortization (Note 3)	14,162	19,707
Finance charges (Note 16)	1,229	1,994
	188,879	183,785
Income before Deferral Account Transfers	945	21,561
Deferral Accounts (Note 5)	1,797	(8,100)
Net Income	$ 2,742	$ 13,461

Statement of Retained Earnings

For the years ended March 31 (in thousands)	2007	2006
Retained Earnings, beginning of year	$ 17,770	$ 4,309
Prior period adjustment (Note 20)	(1,493)	–
Net income	2,742	13,461
Retained Earnings, end of year	$ 19,019	$ 17,770

See accompanying notes to the financial statements.

Balance Sheet

as at March 31 (in thousands)	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 13,299	$ 36,038
Short term investments (Note 4)	7,350	7,242
Accounts receivable	5,156	3,899
Prepaid expenses (Note 7)	1,900	1,360
Due from BC Hydro (Note 9)	–	21,590
Deferral accounts (Note 5)	14,751	–
	42,456	70,129
Other Assets (Note 6)	708	344
Prepaid Expense - Long Term (Note 7)	2,309	3,234
Property, Plant and Equipment (Notes 3 and 8)	100,102	63,628
	$145,575	$137,335
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Current portion of obligations under capital lease (Note 13)	$ 107	$ 99
Accounts payable and accrued liabilities	27,051	14,663
Accrued interest	376	376
Deferred revenue	1,692	1,439
Deferred leasehold inducements	1,518	1,752
Due to BC Hydro (Note 9)	16,490	–
Deferral accounts (Note 5)	–	23,393
	47,234	41,722
Accrued Employee Benefits (Notes 3 and 10)	21,467	19,873
Asset Retirement Obligation (Note 11)	927	883
Long Term Debt (Note 12)	30,088	30,140
Obligations Under Capital Lease (Note 13)	6,840	6,947
	106,556	99,565
Shareholder's Equity		
Share capital (Note 14)	20,000	20,000
Retained earnings	19,019	17,770
	39,019	37,770
	$145,575	$137,335

Commitments and contingencies (Note 19)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

R.T.E. (Bob) Reid
Chair of the Board

John Gill
Chair, Audit Committee

Statement of Cash Flows

For the years ended March 31 (in thousands)	2007	2006
Operating Activities		
Net income	$ 2,742	$ 13,461
Adjustment for non-cash items:		
Write-off of long-term receivable	–	985
Depreciation and amortization	14,162	19,707
Other amortization expense included in operations, maintenance and administration	683	806
Accrued employee benefits changes	1,594	1,153
	19,181	36,112
Changes in non-cash working capital:		
Accounts receivable and prepaid expenses	(1,797)	(1,360)
Due from (to) BC Hydro	36,587	(17,222)
Accounts payable	12,388	4,444
Accrued interest and deferred revenue	253	830
Deferral accounts	(38,144)	23,393
	9,287	10,085
Cash provided by operating activities	28,468	46,197
Investing Activities		
Capital asset expenditures	(50,636)	(20,773)
Short term investments	(108)	2,854
Addition to long term prepaid expense	–	(443)
Other assets, net of repayment	(364)	32
Cash used for investing activities	(51,108)	(18,330)
Financing Activities		
Accrued employee benefits payment from BC Hydro	–	1,358
Leasehold inducement	–	291
Principal payments of obligations under capital lease	(99)	(93)
Cash (used for) provided by financing activities	(99)	1,556
(Decrease) Increase in Cash	(22,739)	29,423
Cash and cash equivalents, beginning of year	36,038	6,615
Cash and cash equivalents, end of year	$ 13,299	$ 36,038
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 1,450	$ 1,489

See accompanying notes to the financial statements.

Notes to the Financial Statements

Note 1: Nature of Operations

The British Columbia Transmission Corporation ("the Company" or "BCTC") is a provincial Crown corporation incorporated on May 2, 2003 and continued under the BC *Business Corporations Act*. The Company is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) pursuant to that Act to plan, operate and manage the British Columbia Hydro and Power Authority's (BC Hydro) electric transmission system. As part of the British Columbia 2002 and 2007 Energy Plans, the Company's mandate is to plan, operate and manage BC Hydro's transmission assets and provide open and non-discriminatory access to BC's electric transmission system. BCTC reports to the Minister of Energy, Mines and Petroleum Resources and is regulated by the British Columbia Utilities Commission (the Commission).

Note 2: Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Canada (GAAP) and are expressed in Canadian dollars.

Use of Estimates

Management has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

Regulation

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline AcG-19 *"Disclosures by Entities Subject to Rate Regulation"* which provides disclosure requirements for rate-regulated entities.

Cash and Cash Equivalents

Cash and cash equivalents include cash and units in money market funds with original maturity dates of less than 90 days from the original date of acquisition. Cash and cash equivalents are valued at the lower of cost and fair value.

Short Term Investments

Short term investments consist of units in bond pooled funds which invest in government securities or securities guaranteed by government. Units in the pooled funds are recorded at the lower of cost and fair value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. During the construction of new assets, direct costs plus a portion of overhead costs and related financing costs are capitalized. Construction is transferred to property, plant and equipment in service when the asset is substantially complete and available for use. Upon retirement or disposal, any gain or loss is charged to depreciation and amortization.

Depreciation commences in the month after an asset is put into service. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Computer hardware and software	3 – 10 years
Communication equipment	7 – 30 years
Furniture and equipment	5 – 35 years
Leasehold improvements	10 years

Asset Retirement Obligations

A provision for the future removal and site restoration costs arising on the retirement of capital assets is made where there is a statutory, contractual or legal obligation upon retirement. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset.

Impairment of Long-lived Assets

Property, plant and equipment and long-term prepaid expenses (long-lived assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is calculated by deducting the estimated fair value of the asset from its carrying value.

Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Asset values recorded under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Deferred Revenue

Deferred revenue consists principally of amounts received under Preliminary Study Agreements to investigate the requirements for interconnecting independent power generation facilities to the transmission system. The amounts received are deferred and included in income when earned.

Leasehold Inducements

Leasehold inducements are monies advanced on an operating lease for premises by the property owner. Inducements are amortized over the period of the lease and reduce lease expenses.

Revenue Recognition

BCTC earns revenues under the Open Access Transmission Tariff (OATT). OATT revenue is recognized on an accrual basis as services are provided. Tariffs are applicable to network integration transmission services, point-to-point and ancillary services.

Revenues earned through the provision of non-tariff services to BC Hydro for asset management and maintenance, generation related transmission asset management, and generation dispatch are recognized on a straight-line basis over the term of the contract.

Revenues earned through the provision of non-tariff services to BC Hydro for distribution operations and substation distribution asset management are recognized on an accrual basis as services are provided.

Other non-tariff services include engineering services provided to third parties and are recognized on an accrual basis as services are provided.

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Foreign exchange gains and losses are included in the determination of net income.

Pension and Other Retirement Benefit Plans

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service, which incorporates management's best estimate of future salary levels, health care cost escalation, retirement ages of employees and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, from differences in actuarial experience versus the assumed experience or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 10 years.

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Note 3: Change in Accounting Estimates

Depreciation

As a result of a depreciation study that was conducted on property, plant and equipment, the estimated useful lives of various assets were changed. The changes in estimates were effective April 1, 2006 and have been accounted for prospectively. These changes in accounting estimates did not have a material impact on the net income during the year. The impact in subsequent periods is indeterminable and will depend on the level of future capital expenditures and asset disposals. The revised depreciation rates have been approved by the Commission on November 9, 2006 as part of the Negotiated Settlement Agreement on the Fiscal 2006/2007 Transmission Revenue Requirement.

Pension and Other Retirement Benefit Plans

As a result of updated membership information and assumptions that were included in the actuarial valuation as at December 31, 2005, the pension and post-retirement expenses have increased $1.0 million over the previous estimate. The impact to subsequent periods is indeterminable and will depend on factors such as discount rates, realized return on plan assets, rate of compensation increases, and medical benefit cost increases.

Note 4: Short Term Investments

(in thousands)	2007	2006
Investments		
Short term bond unitized fund	$ 3,611	$ 3,553
Index government bond units	3,739	3,689
Total	$ 7,350	$ 7,242

Short term investments are recorded at the lower of cost and fair value.

Note 5: Regulation

Effective April 1, 2005, BCTC is regulated by the Commission which approves the Company's revenue requirement, rates, tariffs and capital expenditures following open, public processes.

BCTC operates under cost of service regulation as prescribed by the Commission. The Company applies to the Commission for the approval of rates recovering an annual revenue requirement. For the year ended March 31, 2007, BCTC earned transmission revenues under tariffs that were projected to recover a 13.10% (F2006 - 13.51%) return on deemed equity. Special Direction No. 9 sets out BCTC's deemed equity structure for the purpose of setting rates.

Currently, BCTC maintains Commission approved deferral accounts for OATT related revenue, emergency maintenance costs, cost of market, and regulatory expenditures. The deferral accounts accumulate the difference between the Commission approved amounts and the actual revenues and costs for recovery from/refund to customers through future rates. The period over which these deferral accounts will be recovered is indeterminable. In the absence of rate regulation, these accounts would not exist.

Revenue Deferral Account

As outlined in the Master Agreement between BCTC and BC Hydro and designated by the Lieutenant Governor in Council on November 20, 2003, BCTC administers OATT for transmission services to recover its own costs as well as costs incurred by BC Hydro. BCTC therefore bears the financial responsibility for funding any short falls or receiving surpluses in the total OATT Revenue Requirement for each fiscal year. The Commission has approved the establishment of the Revenue Deferral Account and other regulatory mechanisms to recover revenue shortfalls or refund revenue surpluses from customers. Consequently, BCTC's deferral account includes a portion pertaining to BC Hydro's Revenue Requirement for transmission services.

BCTC's Revenue Deferral Account captures annual variances between the forecast OATT revenues approved by the BCUC and the actual revenues for both BCTC and BC Hydro. BCTC reports the full amount of its own OATT revenue in Tariff revenue on the statement of operations. Any variance from forecast OATT revenues are deducted from earnings and recorded in the balance sheet deferral account. BC Hydro records its portion of the approved OATT revenues in its financial statements and these revenues are not recorded in the statements of BCTC. However any variance between BC Hydro's actual OATT revenues and BC Hydro's approved OATT revenue is recorded in BCTC's deferral account and an equivalent amount accrued as a receivable or payable to BC Hydro. The Revenue Deferral Account also includes variances relating to BCTC's ancillary service.

Emergency Maintenance Deferral Account

Captures the variances between forecast and actual non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires or similar events.

Cost of Market Deferral Account

Captures variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include:

- Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas; and
- Ancillary services expenses BCTC incurs for all generation-based ancillary services that BCTC, in turn, sells to customers on a cost flow through basis.

Regulatory Expense Deferral Account

Captures the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications and interveners costs as approved by the Commission.

Grid West Expense Deferral Account

Captures the variances between forecast and actual expenditures. These costs include BCTC's counsel, consultants, travel and other out-of-pocket expenses. This deferral account was closed at the end of F2006 following the dissolution of the Grid West Corporation and wind-up of its affairs.

The balances at March 31, 2007 included in the regulatory deferral accounts are as follows:

($ in thousands)	March 31, 2006 Balance	Refunded	BCTC's Revenue Requirement	BC Hydro's Revenue Requirement	Net Interest	March 31, 2007 Balance
Revenue	$ (18,386)	$ 19,030	$ 2,769	$ 12,665	$ (311)	$ 15,767
Emergency Maintenance	(1,320)	1,389	796	–	(52)	813
Cost of Market	(1,263)	1,307	(1,862)	–	(107)	(1,925)
Regulatory Expense	(1,730)	1,814	94	–	(82)	96
Grid West Expense	(694)	728	–	–	(34)	–
Total	$ (23,393)	$ 24,268	$ 1,797	$ 12,665	$ (586)	$ 14,751

The interest recorded in each of the Deferral accounts was based on BCTC's weighted average cost of debt for F2007 4.22%, (F2006 - 4.22%).

BCTC applied and received an Accounting Order from the Commission to reduce BCTC's retained earnings and reduce accounts receivable in F2007 to prevent an unintentional double-recovery of costs (Note 20).

Note 6: Other Assets

(in thousands)	2007	2006
Mortgages receivable	$ 699	$ 330
Deferred debt costs	9	14
Total	$ 708	$ 344

BCTC has an Employee Housing Assistance Program, which grants five-year housing loans to employees. At March 31, 2007, there were five employee mortgages outstanding (2006 – two employees). These loans were issued at market rates and are secured by a second mortgage registered against their property. At the expiry of the mortgage term, the employees have the option to renew the mortgage for an additional five-year term.

Note 7: Prepaid Expenses

The long term prepaid expense balance as at March 31, 2007 relates to an initial asset utilization fee paid in 2004 to BC Services Asset Corporation (SAC), a subsidiary of BC Hydro, pursuant to an agreement of key principles and terms with BC Hydro, upon which the current Master Services Agreement would be split between Accenture Business Services and BC Hydro and BCTC respectively. This fee is amortized over the utilization period of the related SAC assets, which is estimated to be 3.7 years remaining.

(in thousands)	2007	2006
SAC Asset utilization fee payment	$ 3,274	$ 4,208
Less: long term prepaid expense	(2,309)	(3,234)
SAC short term prepaid expense	965	974
Other short term prepaid expenses	935	386
Short term prepaid expense	$ 1,900	$ 1,360

Note 8: Property, Plant and Equipment

2007

($ in thousands)	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	$ 7,297	$ (877)	$ 6,420
Computer hardware and software	26,558	(9,035)	17,523
Communication equipment	421	(110)	311
Furniture and equipment	2,594	(567)	2,027
Leasehold improvements	2,707	(747)	1,960
	39,577	(11,336)	28,241
Other locations:			
Buildings	6,304	(4,164)	2,140
Computer hardware and software	20,803	(18,982)	1,821
Communication equipment	25,523	(18,167)	7,356
Furniture and equipment	3,668	(2,890)	778
Asset retirement obligation cost	142	(137)	5
Contribution in aid of construction	(144)	100	(44)
	56,296	(44,240)	12,056
	95,873	(55,576)	40,297
Unfinished construction	59,805	–	59,805
Total	$155,678	$ (55,576)	$100,102

2006

($ in thousands)	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	$ 7,297	$ (614)	$ 6,683
Computer hardware and software	19,651	(6,254)	13,397
Communication equipment	420	(67)	353
Furniture and equipment	2,595	(391)	2,204
Leasehold improvements	2,660	(381)	2,279
	32,623	(7,707)	24,916
Other locations:			
Buildings	6,304	(2,294)	4,010
Computer hardware and software	19,848	(17,272)	2,576
Communication equipment	25,521	(12,848)	12,673
Furniture and equipment	3,668	(1,428)	2,240
Asset retirement obligation cost	142	(133)	9
Contribution in aid of construction	(144)	72	(72)
	55,339	(33,903)	21,436
	87,962	(41,610)	46,352
Unfinished construction	17,276	–	17,276
Total	$105,238	$ (41,610)	$ 63,628

The assets at the existing control centres are being replaced by the System Control Modernization Project and are depreciated over the earlier of the remaining life or the period to October 2008 and are shown under "Other locations".

Note 9: Transactions with Related Parties

(a) BC Hydro pays the Company for the cost of system operation and asset management services and other services as follows:

(in thousands)	2007	2006
Revenues from BC Hydro		
Tariff revenue	$ 59,358	$ 71,705
Asset management and maintenance	87,300	90,200
Service fees and other	31,014	32,705
Total revenues from BC Hydro	$177,672	$194,610

(b) The amounts due (to) from BC Hydro as at March 31 are as follows:

(in thousands)	2007	2006
Tariff billing distributed to BC Hydro (less than) in excess of their Revenue Requirement	$ (12,285)	$ 15,304
Accrued tariff billing receivable	10,514	13,148
Service fees and cost recoveries	4,623	6,654
Services performed by BC Hydro and subsidiaries	(19,342)	(13,516)
Total due (to) from BC Hydro	$ (16,490)	$ 21,590

(c) Included in the operations, maintenance and administration expense is $78,485,000 (2006 - $75,956,000) for services purchased from BC Hydro and subsidiaries and $7,293,000 (2006 - $5,763,000) of labour overhead cost recoveries from BC Hydro. Included in capital expenditures is $947,000 (2006 - $395,000) for services purchased from BC Hydro.

(d) Included in due from BC Hydro and deferred revenue is $1,199,000 (2006 - $ 986,000) of engineering and other services from BC Hydro in relation to systems studies.

(e) In December 2003, the Company entered into lease contracts with BC Hydro for control centre buildings and land (see Note 13). Two building leases valued at BC Hydro's net book value of $7,297,000 are accounted for as capital leases. These amounts have been included in the financial statements as capital assets and obligations under capital lease. At March 31, 2007, the balance of the obligations under capital lease was $107,000 (2006 - $99,000) current and $6,840,000 (2006 - $6,947,000) non-current. Included in finance charges is $514,000 (2006 - $521,000) of interest expense relating to the capital leases. Other land and building leases with BC Hydro are accounted for as operating leases. Included in the operations, maintenance and administration expense is $200,000 (2006 - $200,000) for these operating leases.

Note 10: Accrued Employee Benefits

(in thousands)	2007	2006
Registered pension plan (see Note 18)	$ (2,117)	$ (800)
Supplemental pension plan (see Note 18)	3,557	2,320
Total Accrued benefit liability	1,440	1,520
Post-retirement benefit costs (see Note 18)	9,750	8,490
Time bank liabilities	10,277	9,863
	$ 21,467	$ 19,873

The defined benefit costs for the year ended March 31, 2007 were $4,893,000 (2006 - $3,217,000).

Note 11: Asset Retirement Obligation

On April 1, 2004, the Company recorded an asset retirement obligation (ARO) for the system control centre facility as it is legally required to remove the facility at the end of its useful life (estimated to be October 2008) and to restore the site to its original condition in accordance with the lease agreement. The system control centre facility was placed in service by BC Hydro in 1974. This asset was transferred to the Company on December 1, 2003 under the Asset Lease, License and Transfer Agreement. The ARO liability for this facility is estimated to be $1,000,000 at the end of October 2008. The present value of this ARO liability, calculated to be $795,000, was recorded in April 2004 using a credit adjusted risk free rate of 5.9%. BC Hydro paid the Company $778,000 for its share of the ARO liability.

The liability was as follows:

(in thousands)	2007	2006
ARO liability – beginning of period	$ 883	$ 842
Accretion expense	44	41
ARO liability – end of period	$ 927	$ 883

Note 12: Long Term Debt

In May 2004, the Company issued a debenture, series BCTR-CD-6(1) to the Province of British Columbia with a face value amount of $30,000,000, a coupon rate of 4.3% and an effective interest rate of 4.1%. The balance at March 31, 2007 consists of the face value of the debenture, $30,000,000 and $88,000 of unamortized premium (2006 – face value of the debenture, $30,000,000 and $140,000 of unamortized premium). The debenture is due on December 18, 2008 with interest payable semi-annually in June and December of each year.

The Company currently has no short term borrowings. Under the terms of an agreement with the Province of British Columbia, the Company is authorized to borrow up to $25,000,000 under the short-term commercial paper program. Interest is charged at the prevailing money market rates. In addition, the Company has available a $5,000,000 demand revolving line of credit with a chartered bank.

Note 13: Obligations Under Capital Lease

The Company has land and buildings under capital and operating leases with BC Hydro. The capital leases are for the Lower Mainland and South Interior Control Centres (LMCC and SICC), issued at varying rates of interest of 7.319% and 7.366% per annum compounded monthly and terms of 25 years and 31 years. The System Modernization Control Project is scheduled to go into service in October 2008, which may only affect the LMCC lease. The financial statement impact of the LMCC capital lease is not determinable at this time. The future minimum payments under capital lease with BC Hydro are approximately as follows:

($ in thousands)	Capital Leases
2008	$ 614
2009	614
2010	614
2011	614
2012	614
2013 and subsequent years	12,052
Total future minimum payments	15,122
Less: imputed interest	(8,175)
Capital lease liability	6,947
Less: current portion	(107)
Long term portion of capital lease	$ 6,840

The Company and BC Hydro are in discussions regarding the LMCC lease which the Company proposes to surrender the lease to BC Hydro without payment of any amount for the value of the building as set out in Section 7.5 of the LMCC Building Lease. The timeframe for surrender is to be mutually agreed between the parties and is not determinable at this time.

Note 14: Share Capital

Authorized Share Capital
The Company is authorized to issue 10,000,000 common shares without par value.

Common Shares

	2007		2006	
	Shares	Amount	Shares	Amount
Issued at incorporation	1	$ 1	1	$ 1
Issued pursuant to Subscription Agreement for cash consideration	1	20,000,000	1	20,000,000
Issued and Outstanding	2	$ 20,000,001	2	$ 20,000,001

The Province of British Columbia owns both common shares.

Note 15: Cost of Market

Cost of market expenses include ancillary service and congestion management costs. Ancillary service costs include scheduling, system control and dispatch, reactive supply and voltage control, regulation and frequency response, energy imbalance, operating reserves and loss compensation. Ancillary service costs are needed with transmission service to maintain reliability within and among the control areas affected by the transmission service. Congestion management costs relate to the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation, and operating agreements between control areas. Congestion management costs are incurred to maximize the transmission capacity available to be contracted by customers.

(in thousands)	2007	2006
Congestion Management	$ 816	$ 916
Ancillary Services	4,149	3,623
	$ 4,965	$ 4,539

Note 16: Finance Charges

(in thousands)	2007	2006
Interest on debenture	$ 1,249	$ 1,250
Interest on capital leases	514	521
Interest on deferral accounts	586	436
Interest on other	314	95
Less: Interest capitalized to construction	(1,434)	(308)
	$ 1,229	$ 1,994

Note 17: Financial Instruments and Concentration of Risk

Fair values

At March 31, 2007, the Company's financial instruments included cash and cash equivalents, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities, accrued interest, due to BC Hydro, accrued employee benefits, asset retirement obligation, long-term debt, and obligations under capital lease. The fair values of the Company's financial instruments approximate carrying amounts unless otherwise disclosed.

Credit Risk Management

BCTC is directly exposed to counterparty credit risk as a result of providing transmission and related services to its customers. BCTC's customers are utilities and their affiliates in the western United States and western Canada. Credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BCTC management approved procedures and by monitoring the credit risk and credit standing of customers on a regular basis.

Foreign Currency Risk

BCTC's short-term investments are denominated in Canadian dollars and are not exposed to foreign exchange fluctuations.

Interest Rate Risk

For short term investments, interest rate risk is minimized by investing in short-term fixed income pooled funds which are comprised of Government of Canada and provincial short-term paper. BCTC's investments are managed by bcIMC. The long-term debt bears a fixed interest rate for the loan. Consequently, the long-term debt risk exposure is minimal.

Note 18: Employee Benefit Plans

The Company provides a defined benefit registered pension plan to all employees ("Pension Plan"). Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. The Company contributes amounts as prescribed by an independent actuary towards the cost of providing basic benefits under the plan.

In addition, the Company provides a supplementary pension arrangement that provides additional pension benefits to employees to the extent that their benefits under the registered pension plan are constrained by the maximum pension limits under the *Income Tax Act*. For the purposes of this report, the Supplemental Plan includes the minimum pension guarantee provided by BCTC to five former employees of BC Hydro with prior service under one of the BC public service pension plans, as well as certain enhanced benefits payable to BCTC employees at the Vice-President level and above.

The Company provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least ten years of service and qualify to receive pension benefits.

The Company has measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31, 2007. The most recent actuarial valuation of the Pension Plan for funding purposes was as of December 31, 2005, prepared by Mercer Human Resource Consulting. The next actuarial valuation of the Pension Plan for funding purposes is as at December 31, 2008.

On March 31, 2006 a transfer of $408,964 was made from the Registered Plan to the BC Hydro Pension Plan in respect of seven employees who elected to transfer their accrued pension from BCTC to BC Hydro in accordance with the Inter-Plan Pension Transfer Agreement.

On April 13, 2006 a transfer of $102,884 was made from the BC Hydro Pension Plan to the Registered Plan in respect of four employees who elected to transfer their accrued pension from BC Hydro to BCTC in accordance with the Inter-Plan Pension Transfer Agreement.

On December 21, 2006 a transfer of $502,367 was made from the BC Hydro Pension Plan to the Registered Plan in respect of three employees who elected to transfer their accrued pension from BC Hydro to BCTC in accordance with the Inter-Plan Pension Transfer Agreement. On that same date, a cash payment of $674,053 was made by BC Hydro to BCTC in respect of obligations under the Supplemental Plan assumed by BCTC in respect of an employee who elected to transfer his accrued pension from BC Hydro to BCTC in accordance with the Inter-Plan Pension Transfer Agreement. This cash payment is not a plan asset under CICA 3461 as the Supplemental Plan is not a funded arrangement.

Additionally, during the period ended March 31, 2006, $140,000 was transferred to the BC Hydro Pension Plan in relation to non-pension post-retirement benefits for employees who transferred from BCTC to BC Hydro.

Total cash payments for employee future benefits for 2007 consisting of cash contributed by the Company to its funded pension plan, cash payments directly to beneficiaries for its unfunded other benefit plans was $4,445,000 (2006 - $2,572,000).

Elements of defined benefit costs

	Pension Plans		Other Benefit Plans	
($ in thousands)	2007	2006	2007	2006
Company current service cost				
Basic benefits	$ 3,216	$ 1,961	$ 550	$ 332
Indexing benefits	291	266	–	–
Interest cost	2,219	1,729	609	548
Actual return on plan assets	(4,198)	(3,179)	–	–
Special termination benefits	–	110	–	–
Actuarial loss (gain) on accrued benefit obligation	4,040	4,579	473	979
Costs arising in the period	$ 5,568	$ 5,466	$ 1,632	$ 1,859
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	1,987	1,427	–	–
Actuarial gain	(3,940)	(4,575)	(354)	(960)
Net periodic pension cost recognized	$ 3,615	$ 2,318	$ 1,278	$ 899

Weighted-average assumptions for expense

	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Discount rate	5.4%	6.0%	5.4%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	–	–
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Weighted average health care trend rate - initial	–	–	5.4%	5.8%
Weighted average health care trend rate – ultimate rate reached after 2011	–	–	4.0%	4.0%

Weighted-average assumptions for disclosure

	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Discount rate	5.25%	5.4%	5.25%	5.4%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Weighted average health care trend rate - initial	–	–	5.1%	5.4%
Weighted average health care trend rate – ultimate reached after 2015	–	–	4.0%	4.0%

Change in accrued benefit obligation

	Pension Plans		Other Benefit Plans	
($ in thousands)	2007	2006	2007	2006
Accrued benefit obligation at beginning of period	$ 45,801	$ 6,410	$ 10,522	$ 8,816
Obligation assumed from (transferred to) BC Hydro	870	28,518	–	(140)
Additional obligation due to special benefit granted to certain employees	58	–	–	–
Company current service cost				
Basic benefits	3,216	1,961	550	332
Indexing benefits	291	266	–	–
Interest cost	2,219	1,729	609	548
Actual return on plan assets – indexing benefits	1,049	1,046	–	–
Employee contributions				
Basic benefits	1,373	1,249	10	4
Indexing benefits	287	265	–	–
Benefits paid	(826)	(332)	(28)	(17)
Special termination benefit	–	110	–	–
Actuarial loss	3,982	4,579	473	979
Accrued benefit obligation at end of period	$ 58,320	$ 45,801	$ 12,136	$ 10,522

Change in plan assets

	Pension Plans		Other Benefit Plans	
($ in thousands)	2007	2006	2007	2006
Fair value of plan assets at beginning of period	$ 40,563	$ 5,577	$ –	$ –
Assets transferred from BC Hydro	196	27,020	–	–
Actual return on plan assets				
Basic benefits	4,196	3,179	–	–
Indexing benefits	1,049	1,046	–	–
Company contributions				
Basic benefits	4,135	2,293	18	13
Indexing benefits	292	266	–	–
Employee contributions				
Basic benefits	1,373	1,249	10	4
Indexing benefits	287	265	–	–
Benefits paid	(826)	(332)	(28)	(17)
Fair value of plan assets at end of period	$ 51,265	$ 40,563	$ –	$ –

Reconciliation of funded status to accrued benefit asset

	Pension Plans		Other Benefit Plans	
($ in thousands)	2007	2006	2007	2006
Funded status - excess (deficit) at end of period	$ (7,055)	$ (5,238)	$ (12,136)	$ (10,522)
Employer contributions after measurement date	–	–	–	–
Unamortized net actuarial loss	5,615	3,718	2,386	2,032
Accrued benefit liability	$ (1,440)	$ (1,520)	$ (9,750)	$ (8,490)

Pension Plan assets by asset category

	2007	2006
Equity securities	54%	54%
Debt securities	44%	44%
Cash and short term	2%	2%
Total	100%	100%

Assumed cost trend rates have a significant effect on the amounts reported for the other benefit plans. A 1% change in assumed cost trend rate would have the following effects for 2007:

($ in thousands)	1% Increase	1% Decrease
Total of service and interest cost	$ 336	$ (242)
Accrued benefit obligation	2,829	(2,199)

Note 19: Commitments and Contingencies

(a) The Company has land and buildings under operating leases with BC Hydro. As well, the Company has entered into agreements with BC Hydro to purchase engineering and field services. The future minimum payments under operating leases and service agreements with BC Hydro are approximately as follows:

($ in thousands)	Operating Leases	Service Agreements
2008	$ 200	$ 42,850
2009	145	42,850
2010	36	42,850
2011	36	34,280
2012	36	25,710
2013 and subsequent years	698	25,710
Total future minimum payments	$ 1,151	$214,250

Since 2004, an agreement has been in place between BC Hydro, BCTC and Accenture Business Services (ABS) through which BCTC takes services and pays prices under the Master Services Agreement (MSA) between ABS and BC Hydro. BCTC will continue to take services under this agreement. Since this agreement has been in place there has been no interruption of service to BCTC.

The Company subleased an operating lease from BC Hydro for land associated with the system control centre. With the implementation of the SCMP project, the system control centre will be replaced. The Company and BC Hydro plan to begin negotiations with the landlord regarding the operating lease.

The future minimum payments on the ten-year lease for Bentall office premises are approximately as follows:

($ in thousands)	
2008	$ 2,438
2009	2,543
2010	2,610
2011	2,626
2012	2,628
2013 to 2014	3,942
	$ 16,787

(b) BCTC has entered into several construction contracts totalling $43,800,000 relating to the System Control Modernization Project.

(c) As part of the Certificate of Public Convenience and Necessity (CPCN) approval for the Vancouver Island Transmission Reinforcement (VITR) project, there is an incentive and penalty mechanism for managing the project cost. The cost of the project approved by the Commission is $248,800,000. Under the incentive and penalty mechanism, if the project cost exceeds $259,000,000, the Company would incur a penalty of 25% of the Company's forecasted approved return on deemed equity for F2009, which is approximately $1,800,000. Conversely, if project cost is below $241,500,000, the Company would receive an incentive payment of $1,800,000. Currently, it is not determinable if the project cost will exceed the penalty threshold.

Note 20: Prior Period Adjustment

In the approved F2005/2006 Revenue Requirement application, the Company included $1,493,000 of maintenance work as part of OMA costs recovered from customers through rates. The actual costs were funded and capitalized as BC Hydro Transmission capital in F2005/2006 as it was determined that the work performed extended the life of the assets. This will result in an unintentional double recovery of the same costs from customers over the assets' useful life. As agreed during the Negotiated Settlement process, the Company applied and the Commission approved Accounting Order G-11-07 to eliminate the potential double recovery. The Accounting Order requires the Company to recognize the $1,493,000 as a prior period adjustment.

Financial and Operating Statistics

Financial Statistics	Unit of Measures	F2007	F2006	F2005 [1]	F2004 [1]
Revenues	$ millions	189.8	205.3	94.8	42.3
Net Income before deferral accounts	$ millions	0.9	21.6	3.4	0.9
Net Income	$ millions	2.7	13.5	3.4	0.9
Total Assets	$ millions	145.6	137.3	93.7	68.5
Total Liabilities	$ millions	106.6	99.5	69.4	47.5
Shareholder's Equity	$ millions	39.0	37.8	24.3	20.9
Debt	$ millions	37.0	37.2	37.3	9.9
Total Transmission Assets under Management	$ millions	2,587	2,479	2,489	2,618
Capital Expenditures					
- Assets owned by BCTC	$ millions	50.4	21.4	13.3	65.9
- Transmission assets owned by BC Hydro	$ millions	183.8	123.7	122.1	167.0
Actual Debt to Equity Ratio	Ratio	44:56	48:52	49:51	N/A
OMA Unit Cost/GWh-km	in cents	18.7	19.0	18.9	20.5
Operating Statistics					
BCTC SAIDI	(Hours)	4.23	2.07	2.33	2.74
Length of Transmission Lines	(Km)	18,234	18,286	18,286	18,284
Number of stations	(Number)	291	287	287	287
Maximum Reserve Demand [2]	(MW)	11,100	11,100	11,100	10,985
Peak Demand	(MW)	10,113	9,317	9,437	9,619
Point-to-Point Sales Volume					
Long-Term	(GWh)	5,958	4,190	5,187	4,722
Short-Term	(GWh)	14,087	10,933	6,288	11,553
Transmission Rates					
Long-Term PTP (Average)	($/MWh)	$ 5.24	$ 5.88	$ 5.74	$ 6.01
Short-Term PTP (Average)	($/MWh)	$ 1.80	$ 4.16	$ 3.09	$ 2.88
Annual Network Charge	($ millions)	$ 437.8	$ 503.9	$ 462.1	$ 501.3
Number of Employees					
Regular		360	321	311	293
Temporary		37	19	14	1

(1) The financial statistics for F2004 and F2005 represent a partial and full year, respectively, providing contract services to BC Hydro, whereas F2006 and F2007 results are for BCTC as a financially independent utility.

(2) Maximum Reserve Demand is the maximum capacity supply that was used in the determination of long-term point-to-point transmission rates.

Glossary of Terms

Benchmark is a measured achievement that is used as a reference or measurement standard for comparison and is recognized as the standard of excellence for a specific business process.

Gigawatt hour (GWh) is a unit of bulk energy; one million kilowatt hours.

Interconnected System is a system which has two or more individual power systems normally operating in synchronism and having connecting tie lines.

Intertie is a transmission circuit used to tie or inter-connect two utility systems.

Kilowatt hour (KWh) is the basic unit of electric energy equal to 1 kilowatt or 1,000 watts of power used for one hour. The amount of power the customer uses is measured in kilowatt hours (KWh). A 100-watt light bulb operated for 10 hours uses 1 kWh.

Load is the total amount of electricity required to meet customer demand at any moment. The load fluctuates depending on electricity use throughout any given day.

Megawatt hour (MWh) is a unit of bulk energy; 1,000 kilowatt hours.

Open Access allows all eligible parties to use the transmission system to move power on a non-discriminatory basis.

Power is the rate at which electric energy is converted into another form, such as light, heat, or mechanical energy (or converted from another form into electric energy).

Revenue Requirement means the amount of revenues the utility needs to receive in order to cover operating expenses, pay debt service and provide a fair return on invested capital.

Transmission is the process of transporting electric energy in bulk on high-voltage lines from the generating facility to the local distribution company for delivery to retail customers.

Transmission capacity is the amount of electric power that can be transferred over the interconnected transmission system network in a reliable manner while meeting all of a set of defined system conditions.

Voltage is the force which pushes electricity through a wire (just as pressure causes water to flow in a pipe).

WECC means the Western Electricity Coordinating Council, which is one of 10 North American Electricity Reliability Council (NERC) regional councils.

ISSN

Library and Archives Canada Cataloguing in Publication Data
British Columbia Transmission Corporation
Annual Report : 2004-

Annual
Issues also have distinctive titles.
Report year ends Mar. 31.
ISSN 1911-0979 = Annual Report (British Columbia Transmission Corporation)

1. British Columbia Transmission Corporation – Periodicals.
2. Electric power transmission – British Columbia – Periodicals.
3. Electric lines – British Columbia – Periodicals.
4. Electric utilities – British Columbia – Periodicals. I. Title.

HD2768.C35B7 354.4'90971105 C2006-960116-X

Contact Us

British Columbia Transmission Corporation
Suite 1100, Four Bentall Centre
1055 Dunsmuir Street, Box 49260
Vancouver, BC
V7X 1V5
604.699.7300
1.866.647.3334
www.bctc.com

BC Transmission
CORPORATION

Building Connections